

D. E. Shaw Investment Management, L.L.C.

Form ADV Part 2A: The Brochure

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This brochure provides information about the qualifications and business practices of D. E. Shaw Investment Management, L.L.C. (the “Adviser” or “DESIM”), an investment adviser registered with the United States Securities and Exchange Commission (the “SEC”) under the U.S. Investment Advisers Act of 1940, as amended (the “Advisers Act”). Such registration does not imply a certain level of skill or training. If you have any questions about the contents of this brochure, please contact us at +1 (212) 478-0000. The information in this brochure has not been approved or verified by the SEC or by any state securities authority.

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

This brochure is for informational purposes only. It does not convey an offer of any type and is not intended to be, and should not be construed as, an offer to sell, or the solicitation of an offer to buy, any interest in any entity, investment, or investment vehicle.

Item 2: Material Changes

This brochure contains material changes since its most recent annual update on March 29, 2019. The material changes comprise updates to various risk factors in Item 8 and conflicts of interest in Item 10.

Item 3: Table of Contents

Item 2:	Material Changes	1
Item 3:	Table of Contents.....	2
Item 4:	Advisory Business.....	3
Item 5:	Fees and Compensation	3
Item 6:	Performance-Based Fees and Side-by-Side Management	8
Item 7:	Types of Clients.....	9
Item 8:	Methods of Analysis, Investment Strategies, and Risk of Loss.....	9
Item 9:	Disciplinary Information	44
Item 10:	Other Financial Industry Activities and Affiliations	46
Item 11:	Code of Ethics, Participation or Interest in Clients' Transactions, and Personal Trading.....	56
Item 12:	Brokerage Practices	57
Item 13:	Review of Accounts.....	59
Item 14:	Client Referrals and Other Compensation	60
Item 15:	Custody.....	60
Item 16:	Investment Discretion.....	60
Item 17:	Voting Client Securities.....	60
Item 18:	Financial Information	61

Item 4: Advisory Business

DESIM is a Delaware limited liability company and an investment adviser registered with and regulated by the SEC under the Advisers Act. DESIM serves as an investment adviser to certain clients through separately managed accounts and as the managing member or manager of, and/or the investment adviser to, certain affiliated collective investment vehicles and other entities in the D. E. Shaw group (collectively, the “Funds”). With respect to certain Funds, the Adviser provides investment advice to such Funds in its capacity as their managing member or manager. (As used herein, the term “clients” refers both to the Adviser’s separately managed account clients and to the Funds, as applicable.)

The investor base of the Funds comprises institutional investors and other highly sophisticated, high-net-worth participants. These investors must meet certain minimum financial requirements (*e.g.*, an institution generally must own and invest on a discretionary basis at least \$25 million of certain investments), among other requirements, to be eligible to participate in the Funds, which are structured as private investment companies that are exempt from registration as investment companies under U.S. law by virtue of Section 3(c)(7) of the Investment Company Act of 1940, as amended (the “Investment Company Act”).

The D. E. Shaw group was founded in 1988. DESIM was formed in and has been a registered investment adviser since 2005. The D. E. Shaw group invests globally in both public and private markets and uses a broad array of strategies, including systematic strategies based on quantitative and computational techniques, discretionary strategies based primarily on human analysis, and hybrid strategies that combine systematic and discretionary approaches to investing.

D. E. Shaw & Co., L.P. (“DESCO LP”) is the managing member and sole owner of DESIM. DESCO LP’s principal owner is Dr. David Elliot Shaw. Other entities and individuals hold minority stakes in DESCO LP.

DESIM bases its advice to clients on the investment objectives and restrictions (if any) set forth in such clients’ applicable investment management agreements, offering memoranda, organizational documents, and/or subscription agreements, as the case may be (each, a “Governing Document,” and collectively, the “Governing Documents”).

DESIM managed approximately \$29,135,700,000 in investment capital on a discretionary basis as of January 1, 2020.

Item 5: Fees and Compensation

DESIM acts as an investment adviser on a discretionary basis to managed accounts and to Funds. DESIM’s compensation for such services includes an asset-based fee (a “Management Fee”) and may also include a performance-based fee, charge, or allocation (each, a “Performance Charge”). The definitive terms of such compensation, including whether DESIM deducts or invoices for fees, are generally set forth in the applicable Governing Document. Management Fees generally are paid monthly or quarterly in arrears, unless set forth otherwise in the applicable Governing Document. The Management Fee schedule for managed accounts generally is based upon the client’s account size and expected risk level, although managed account clients may negotiate alternative fees. The following table sets forth the current

standard Management Fee schedule for managed accounts that deploy DESIM's "Active Equity Strategies" (as outlined in "Methods of Analysis and Investment Strategies" in Item 8 below). This table is subject to change (e.g., fees and/or investment strategies may be added, deleted, or modified).

Targeted Tracking Error (bps)	Initial \$100 mn	Next \$100 mn	Over \$200 mn
Large Cap/Broad Market Core Strategies			
<i>Long-Only</i>			
100	30 bps	27 bps	24 bps
200	51 bps	46 bps	41 bps
300	63 bps	57 bps	51 bps
<i>130/30</i>			
300	78 bps	78 bps	78 bps
<i>150/50</i>			
350	88 bps	88 bps	88 bps
All Cap Core Strategies			
<i>Long-Only</i>			
100	33 bps	30 bps	27 bps
200	54 bps	49 bps	44 bps
300	67 bps	60 bps	54 bps
<i>130/30</i>			
300	82 bps	82 bps	82 bps
International/World Strategies			
<i>Long-Only</i>			
100	35 bps	32 bps	29 bps
250	70 bps	65 bps	60 bps
<i>130/30</i>			
300	84 bps	84 bps	84 bps
All Country Global Strategies			
<i>Long-Only</i>			
100	38 bps	35 bps	32 bps
250	75 bps	70 bps	65 bps
<i>130/30</i>			
300	89 bps	89 bps	89 bps
<i>150/50</i>			
350	105 bps	105 bps	105 bps

Managed account fees shown in the preceding table are for investment management services only; third-party custodial fees and brokerage commissions and other fees are not included.

Performance Charge arrangements may also be used in certain circumstances. DESIM may enter into Performance Charge arrangements with clients that fall within the definition of a "qualified client" pursuant to Rule 205-3 under the Advisers Act or as permitted under Section 205(b) of the Advisers Act.

Performance Charges generally are paid in arrears but, where applicable, may be paid at the time of termination of the advisory agreement (with respect to a managed account) or at the time of a withdrawal or distribution of capital (with respect to a Fund), in each case unless otherwise set forth in the applicable Governing Document.

The Management Fee and Performance Charge (if any) with respect to a Fund are set forth in the applicable Governing Document. Funds that deploy DESIM's "Active Equity Strategies" (as outlined in "Methods of Analysis and Investment Strategies" in Item 8) generally have two series of regular member interests. One series is assessed a Management Fee that is generally comparable to the Management Fee applied to managed accounts utilizing the corresponding investment strategy. The other series is assessed a reduced Management Fee as well as a Performance Charge, typically equal to 20% of the Fund's outperformance of the stated benchmark for the relevant investment strategy. Funds that deploy strategies on DESIM's "Orienteer Platform" (as outlined in "Methods of Analysis and Investment Strategies" in Item 8 below) have only a single series of regular member interests; such series is assessed a Management Fee that ranges from 78 basis points annually to 117 basis points annually.

In general, if a Management Fee has been paid in full in advance for a period in which either the advisory contract with the relevant client has been terminated, or, with respect to a Fund, for the period in which an investor has withdrawn its investment in such Fund, the applicable portion of such Management Fee paid relating to the portion of the period after such termination or withdrawal will be returned or credited to the client or to the withdrawing or redeeming Fund investor, subject to the terms of the applicable Governing Document; however, Governing Documents related to Funds typically do not permit such intraperiod terminations or withdrawals. A client may terminate an advisory contract before its expiration date by complying with the provisions regarding termination provided in the advisory contract, including without limitation by sending a notice of termination to the address designated under the advisory contract.

The Adviser negotiates fees and other terms in certain cases. The Adviser from time to time has entered into agreements with certain underlying investors in the Funds that provide for terms of investment that are more favorable than the terms set forth in the applicable Governing Document. Such terms may include, among other things, the waiver, reduction, or rebate of Management Fees, Fund expenses, and/or Performance Charges; the provision of additional information or reports; more favorable transfer and/or withdrawal rights; provisions regarding indemnification and/or the jurisdiction and choice of law for disputes regarding the investment; provisions regarding the investor's and/or the Adviser's confidentiality obligations; and "most-favored-nation" provisions covering one or more terms or rights. No such agreement necessarily entitles any other Fund investor to the same terms of investment as offered in such agreement.

Clients advised by DESIM incur expenses in connection with custodial or brokerage services outlined in Item 12. In addition, each client incurs such operating costs and expenses (collectively, "operating costs"), if any, as are set forth in the applicable Governing Document. DESIM's separately managed account clients generally are not charged any operating costs relating to services provided by DESIM. For certain Funds, examples of operating costs include, without limitation:

- (a) organizational costs of a Fund, generally subject to a cap;

- (b) costs related to actual or potential investments of a Fund (such as costs related to the acquisition, holding, monitoring, maintenance, or disposition of any investment; costs related to any subsidiary of a Fund; commissions and other transaction costs; brokerage, exchange, clearing, and other similar costs; financing costs; costs related to data and information services; due diligence and research costs; travel costs; and costs for accounting, consulting, legal, tax, or other services and technology);
- (c) costs related to the general operations of a Fund (such as costs related to administration; costs related to accounting, audit, consulting, financial operations, legal, reporting, tax, post-trade support, treasury, valuation, independent agent, and other services and technology; costs related to data and information services; costs related to the ongoing offering of Fund interests; costs related to amendments or other modifications to any Governing Document or other document relating to a Fund; insurance costs; costs related to exchange memberships; costs related to regulatory compliance, including without limitation regulatory filings, licenses, inquiries, and examinations; costs associated with the formation and operation of subsidiaries of a Fund; and costs associated with any restructuring, liquidation, winding up, or dissolution of a Fund);
- (d) taxes, duties, or other related costs (other than amounts treated as distributions);
- (e) costs associated with technology and services provided by Arcesium LLC, as discussed in “Services Provided by Arcesium LLC” below;
- (f) certain other costs that may be withheld from distributions to an underlying investor in a Fund or that may be charged upon an underlying investor’s involuntary withdrawal from a Fund;
- (g) costs associated with indemnification, including without limitation any indemnification payment, or contribution by a Fund to any person, whether pursuant to a Governing Document or any other agreement;
- (h) costs associated with any actual or prospective litigation, arbitration, mediation, investigation, examination, information request, or other proceeding (including without limitation proceedings involving any regulatory or self-regulatory body or any governmental or tax authority), including without limitation the amount of any judgment, settlement, fine, penalty, or other amount related to any such proceeding, except in each case to the extent that such costs are treated as distributions; and
- (i) actual or estimated costs of, and reserves for, any expense, liability, or obligation.

Operating costs may include costs in addition to or different from those outlined above. Operating costs may be fixed or variable. Variable costs may be determined by reference to, among other things, a Fund’s usage of the applicable technology or service (e.g., commissions paid per trade), the aggregate assets of the applicable Fund (e.g., an asset-based administration or management fee), and/or the costs incurred by the applicable service provider (e.g., the reimbursement of such service provider’s incidental expenses).

The Adviser will make all determinations and computations regarding operating costs, including determining whether a particular item constitutes an operating cost; any adjustment to operating costs; the allocation of any particular operating cost to one or more categories of client interests; and the

allocation of operating costs (or elements of particular operating costs) between the Adviser's clients and/or its affiliates. The allocation of operating costs (or their elements) between the Adviser's clients and/or its affiliates, as well as between categories of client interests, will be determined by the Adviser and/or its affiliates using any objective criteria, any subjective criteria, or any combination of the foregoing selected by the Adviser and/or its affiliates (including estimates of value contribution, resource utilization, personnel utilization, capital utilization, investment strategy capacity utilization, space utilization, technology utilization, asset ownership, trading volume, revenue, headcount, and/or compensation). Determinations with respect to operating costs associated with services provided by the Adviser and its affiliates are subject to conflicts of interest, including those outlined in Item 10.

Furthermore, the Adviser may be entitled under each Governing Document to be reimbursed for some or all expenses that it or its related persons incur on behalf of the relevant client, potentially including compensation and overhead costs attributable to certain personnel of the Adviser or its related persons (including employees of Arcesium LLC) who provide services to the relevant client.

The Adviser or its related persons may waive such person's right to reimbursement of any portion of operating costs it has incurred. The decision to waive (or not to waive) reimbursement rights with respect to any particular operating cost or expense shall not create or imply any right or obligation with respect to any other reimbursement rights, including with respect to operating costs of a similar nature to those for which reimbursement rights have been waived.

Neither the Adviser nor its supervised persons receives compensation for the sale of securities or other investment products to clients or investors.

Services Provided by Arcesium LLC

The Adviser has engaged Arcesium LLC ("Arcesium") to provide certain middle- and back-office technology and services to the Adviser. Arcesium is a joint venture between a subsidiary of DESCO LP and certain third-party minority investors and was formed in 2015 when a substantial portion of the D. E. Shaw group's back- and middle-office functions spun out into an independently managed entity.

Arcesium provides certain technology and services with respect to certain of the Adviser's clients related to various middle- and back-office functions, including trade capture, asset servicing, margin and collateral monitoring, wires services, trade and position reconciliation, cash reconciliation, pricing, and support for accounting, tax, investor reporting, and compliance. In providing such technology and services, Arcesium is subject to the overall supervision of the Adviser, and the Adviser or its affiliates (other than Arcesium) will retain authority for determining the final valuation of the clients' investments.

Certain Funds may incur certain operating costs associated with services provided by Arcesium to such Funds. For such Funds, such costs may be assessed as one or more of (a) an asset-based charge; (b) a fixed charge for any particular service, technology, or software; (c) a fixed charge for each full-time equivalent employee providing services to a client; or (d) any combination of the foregoing or any other form agreed by Arcesium and the Adviser. The Adviser may consider any factors and inputs it considers relevant in determining the fee or expense arrangement entered into with Arcesium, including the nature and value of technology and services provided by Arcesium, the costs incurred by Arcesium, the price of similar technology and services provided by other firms, administrative convenience, the interests of the

Adviser, and/or the interests of Arcesium. The operating costs associated with Arcesium may result in Arcesium earning a profit.

In addition, to the extent that Arcesium provides services or technology to any service provider to a client (e.g., a third-party administrator), any charges paid to Arcesium in connection with such services or technology will not reduce any Management Fee or Performance Charges. Further, for the avoidance of doubt, the operating costs described associated with Arcesium, and all other operating costs, are independent of, and will not be netted against, any Management Fee and any Performance Charges.

Arcesium has no portfolio management, investment advisory, or fiduciary responsibilities with respect to any of the Adviser's clients. Arcesium does not manage, monitor, or oversee any trading decisions of any client, any client's compliance with its investment objectives, or any other aspects of the portfolio management activity of any client.

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

When trading on behalf of multiple clients, the Adviser and its related persons endeavor to allocate investment opportunities among such clients in a fair and equitable manner. The allocation of trades may vary based on, among other things, differences in investment objectives, capital constraints, and/or leverage preferences among clients, and any anticipated increase or decrease of any particular client's assets under management. In some cases, the Adviser and its related persons may elect to execute a single transaction, and to allocate a portion of the resulting position to multiple clients, including Significant Management Capital Funds and/or other DESCO Favorable Funds (as defined below), with the actual allocation being determined by the Adviser or its related persons, as applicable. Positions purchased or sold in such a transaction generally will be allocated using a *pro rata* method, although the Adviser and its related persons may at times employ other methods in an effort to achieve an allocation that is fair and equitable (as determined by the Adviser or its related persons, as applicable). The policies and procedures of the Adviser and its related persons for allocating trades among multiple clients were developed by the firm's relevant senior management and compliance personnel, and the Adviser and its related persons do not alter such allocation policies without the approval of such personnel.

As outlined in further detail in this Item 6 and in Items 10 and 12, the Adviser and/or its related persons hold significant ownership interests in certain Fund clients. Furthermore, the Adviser and/or its related persons receive the benefit of more favorable terms (such as with respect to fees or the reimbursement of expenses) in connection with their management of certain Fund clients than in connection with their management of other clients. For purposes of this brochure, (a) "Significant Management Capital Fund" refers to any Fund in which the Adviser or its related persons are the ultimate beneficial holders of significant ownership interests, possibly including a substantial majority or all of such ownership interests, and (b) "DESCO Favorable Fund" refers to any Significant Management Capital Fund or to any Fund in which the Adviser and/or its related persons receive the benefit of more favorable terms (including without limitation higher Performance Charges or Management Fees or more generous expense reimbursement provisions) than those applicable to another Fund or another client of the Adviser. In the future, the Adviser and its related persons' ultimate beneficial ownership of a Significant Management Capital Fund may increase (or decrease) and/or the Adviser or its related persons may receive more favorable terms with respect to a DESCO Favorable Fund. Clients and prospective clients

should note that Significant Management Capital Funds and other DESCO Favorable Funds invest in asset classes in which other clients also invest and, in certain cases, pursue investment strategies that are substantially the same as, or substantially similar to, all or certain elements of the investment strategy pursued by a client.

The Adviser and/or its related persons (a) hold investments in DESCO Favorable Funds that are larger (whether in percentage or absolute dollar terms) than any investments they hold in other Fund clients and/or (b) provide services to DESCO Favorable Funds that pay Management Fees, Performance Charges, or other amounts that are greater (whether in percentage or absolute dollar terms) than the corresponding amounts paid by other clients. As a result, the Adviser and/or its related persons have incentives to deploy more profitable investment strategies on behalf of, or to allocate more profitable investment opportunities to, such DESCO Favorable Funds instead of other clients, and in fact have done so on behalf of certain DESCO Favorable Funds and expect to continue to do so in the future. Any such deployment or allocation of such investment strategies or opportunities to a DESCO Favorable Fund decreases the number and quality of investment strategies and opportunities available to such other clients. Further, the Adviser and its related persons have incentives to increase the capital each invests in Significant Management Capital Funds, even if such increase would exacerbate the conflicts of interest described in this paragraph.

Please see Item 10 for additional information regarding certain conflicts of interest arising from the Adviser's allocation of investment opportunities and Item 12 for discussion of aggregated client orders.

Item 7: Types of Clients

DESIM's clients include public and private pension plans, investment companies registered under the Investment Company Act, Undertakings for the Collective Investment in Transferable Securities ("UCITS") governed by Directive 2009/65/EC, and certain other institutional investors. DESIM's clients also include the Funds, which are structured as private investment companies that are exempt from registration under Section 3(c)(7) of the Investment Company Act. A minimum dollar value of assets and other conditions are typically imposed on clients. DESIM may advise clients, whether managed account clients or Funds, that are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). DESIM qualifies as a "qualified professional asset manager" ("QPAM") as defined by ERISA. As a result, client transactions directed by the Adviser may be exempt from certain prohibited transaction rules under ERISA.

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

Methods of Analysis and Investment Strategies

The Adviser primarily deploys two types of investment strategies—its "Active Equity Strategies" and strategies on its "Orienteer Platform." With respect to its Active Equity Strategies, the Adviser applies the D. E. Shaw group's quantitative and computational techniques, based on the D. E. Shaw group's experience in managing alternative investment strategies, to construct benchmark-relative equity strategies for both separately managed accounts and Funds. The Adviser can customize its Active Equity Strategies by allowing a client to select a portfolio benchmark from a number of U.S., international, and

global equity indices. The Adviser can manage its Active Equity Strategies on either a long-only basis or using a “130/30,” “150/50,” or similar investment approach.

The portfolios of Funds and managed accounts in which the Adviser deploys its Active Equity Strategies are generally expected to include common and preferred stock (including ETFs and other investment companies), swaps and other derivative instruments and contracts related to the foregoing, and money market instruments. In particular, such portfolios are expected to be focused on corporate equity securities publicly traded in U.S. and foreign markets (whether held directly or via swap) and ETFs.

With respect to the strategies on its Orienteer Platform, the Adviser seeks to generate attractive long-term risk-adjusted returns across various asset classes through asset allocation and alpha generation. In deploying the strategies on its Orienteer Platform, the Adviser makes extensive use of subjective, qualitative evaluation in both the formulation and execution of many of its investment decisions. Such decisions also may be informed by, and/or made or executed algorithmically according to, quantitative models. Certain strategies on the Adviser’s Orienteer Platform may be managed in a manner that contemplates certain tax considerations applicable specifically to U.S. taxable investors or in a manner that is consistent with the requirements for registered funds under the Investment Company Act.

The portfolios of Funds and managed accounts in which the Adviser deploys the strategies on its Orienteer Platform may include without limitation currencies; bonds, notes, debentures, bills, and other forms of indebtedness or liability issued or incurred by sovereign nations, governmental agencies and instrumentalities, corporations, municipalities, or other persons; futures, options on futures, and forward contracts; swaps (including credit default swaps) and other derivative instruments; common and preferred stock; mortgage TBAs; mortgages, mortgage-backed securities, and other asset-backed securities, including securities backed by various forms of consumer and asset-based finance receivables; exchange-traded funds (and interests in other investment companies); commodities; energy-related products and instruments; weather-related instruments; emissions allowances and transmission rights; bank notes, term loans, debtor-in-possession loans, revolving loans, bank guarantees, letters of credit, and other forms of lender assets or obligations; options, rights, warrants, convertible securities, exchangeable securities, synthetic and/or structured convertible or exchangeable products, participation instruments, and investment contracts; insurance- and reinsurance-related products; instruments having a value or return that is explicitly tied to the occurrence (or non-occurrence) of economic, political, legal, natural, technological, bankruptcy, default, and/or other events; catastrophe bonds, industry loss warranties, and other catastrophe risk-linked instruments; royalty trusts; intellectual property; assets with specified tax attributes; cash and cash equivalents; money market instruments; limited partnership and other limited liability interests; general partnership and other unlimited liability interests; interests in portfolio funds; real estate and other forms of real property-related instruments; trade claims and other receivables; financial interests in settlements of legal disputes; and/or any other security, instrument, interest, or property selected by the Adviser (collectively, “Investments”).

Investments held in connection with the strategies on the Adviser’s Orienteer Platform are expected to relate to markets and/or issuers both in the United States and outside the United States. Moreover, the types of Investments held, the percentage of the applicable market that such Investments represent, and the concentration of particular Investments and/or investment activities for a client are likely to vary over time. Such Investments may be traded on exchanges, “over-the-counter,” or on any other markets, or

may not be traded on any exchange or other market. In addition, with respect to certain of its strategies, the Adviser is expected to cause clients to hold cash and cash equivalents to support their activities, including in connection with Investments, financing or hedging activities, or for operating costs.

The Adviser's trading and other authority with respect to a particular client is outlined in the applicable Governing Document.

Potential Risk Factors

An investment in a managed account or Fund managed by the Adviser involves substantial risks that should be carefully considered by a prospective client or investor, respectively. Certain risk factors that may be applicable to such an investment are outlined below. With respect to Funds, additional risk factors are outlined in the Governing Document for the applicable Fund. It should be noted, however, that there may be other risk factors applicable to such an investment that are not identified. Any of the risks outlined below and/or in the applicable Governing Document, as well as any other risks that are not identified, could result in material losses to investors. Prospective investors should also consult their own legal, investment, tax, and other advisers, and the applicable Governing Document, as to whether such an investment is appropriate for them.

It should be noted that many of the risks outlined under one caption or heading are applicable to one or more other captions and headings.

No Assurance of Investment Return

An investment in a managed account or Fund managed by the Adviser involves a high degree of risk, potentially including the risk that the entire amount invested will be lost. An investment in a managed account or Fund managed by the Adviser is not intended as a complete investment program. Such an investment should be regarded as speculative in nature and appropriate only for a sophisticated investor that can afford a loss of all of its investment and that is able to invest for an indefinite period. It should not be assumed that an investment in a managed account or in a Fund managed by the Adviser will be profitable.

In addition to the risk of loss on such a managed account's or Fund's Investments, an investment in a managed account or Fund managed by the Adviser is subject to the direct and indirect fees and expenses, including any applicable Management Fee and operating costs, outlined elsewhere in this brochure or in the applicable Governing Document, which fees and expenses will reduce returns and require that the managed account or Fund make a certain level of profit from its investing activities in order for an investment in such managed account or Fund simply to break even.

Past or current performance of any of the Adviser's strategies or the investment vehicles sponsored, advised, and/or managed by the Adviser, or of any investment strategies operated within any such investment vehicle (including investment strategies that are substantially the same as, or substantially similar to, all or certain elements of the investment strategy pursued by such investment vehicle), is not indicative of the results that will be achieved either by any such strategy or vehicle in the future or by any other strategy or vehicle. Further, such past performance provides no assurance of the success of any strategy or vehicle in achieving its investment objectives. Managed accounts and Funds managed by the Adviser have (or have had) investment strategies, personnel, and/or trading and other counterparty

relationships that differ significantly from those of another client or may have operated in market conditions that were more favorable to the investment strategy deployed by such managed account or Fund than current or future market conditions are or will be.

General Factors

The operating results, financial condition, activities, and prospects of an investment in a managed account or Fund managed by the Adviser could be materially adversely affected by changes or instability in market, economic, political, technological, regulatory, and social conditions, and by numerous other factors outside the control of the Adviser.

Many of the Adviser's investment strategies and/or Investments are likely to be exposed to risks relating to weaknesses in various global economies and risks relating to the economic cycle. Numerous factors affecting the performance of the Adviser's investment strategies, such as market volatility (or lack thereof), interest rates, commodity prices, equity prices, currency prices, credit spreads, availability and terms of financing, demand from market participants, and deflationary and inflationary pressures, may be affected by the economic cycle and long-term economic trends. Predictions about financial market conditions and economic factors are highly uncertain, and the presence, duration, and impact of any market or economic conditions could have a material adverse effect on the Adviser's investment strategies. Further, managed accounts and/or Funds managed by the Adviser may be unable to open or liquidate positions as a result of changes or instability in market conditions, trading halts due to regulatory limits (such as daily-price-fluctuation limits), emergency trading bans, counterparty actions, or other factors. Such inability to trade could have a material adverse effect on managed accounts and/or Funds managed by the Adviser.

Disruptions in the global financial markets, whether similar or dissimilar to the global financial crisis that began in 2008, may exacerbate the risks to which Investments are exposed and may have a material adverse effect on the value, liquidity, and stability of the Adviser's investment strategies and/or specific Investments. The duration, severity, and ultimate effect of any such disruptions cannot be forecast with confidence.

The Adviser expects not to attempt to, and may be unable to, hedge all of the risk exposures of a client, including certain risk exposures outlined in this brochure, and there can be no assurance that any hedging that is attempted by the Adviser (*e.g.*, with respect to certain equity market risks) would in fact reduce applicable risks.

The risk models and risk management techniques expected to be deployed by the Adviser are based on the information and data available to it as well as on its assumptions, assessments, and estimates, all of which are subject to error. As a result, such models and techniques may not account for all relevant factors or may not account for any such factors correctly. More generally, there can be no assurance that such models and techniques would be effective.

Special Risks of Certain Markets

Certain markets pose special risks due to, among other factors, the limited availability of useful information, the reliance on self-interested persons for price and other information, a limited number of market participants, and more or less regulation. For example, price information might be available only

from brokers or dealers and might not be verifiable. Further, less regulation in certain markets might enable market intermediaries or other investors to engage in “frontrunning” (whether directly or through their customers or agents) of the Adviser’s trades, to misuse information about positions advised by the Adviser to reduce the value or liquidity of those positions, and to take other actions that materially adversely affect the Adviser’s investment strategies. The limited availability of price information or actions of market intermediaries or investors could exacerbate other risk factors outlined in this brochure, including short squeezes, and could have a material adverse effect on the Adviser’s investment strategies. In addition, brokers, dealers, or other market participants may withdraw or substantially reduce the scope of their activity with regard to certain markets or Investments without notice, resulting in disruptions to strategies, pricing, and/or the ability to liquidate or close out positions. Any of the foregoing could have a material adverse effect on the Adviser’s investment strategies.

International Investments

The Adviser is expected to cause one or more of its clients to purchase, sell, hold, trade, structure, restructure, and otherwise acquire or dispose of Investments relating to markets and/or issuers both in the United States and outside the United States, including in certain developing or emerging markets. International investing and trading involve special risks not typically associated with trading in Investments relating to markets and/or issuers solely in the United States. Depending on the particular countries and Investments involved and on the nature of the particular transactions executed outside of the United States, these special risks may include without limitation changes in exchange rates and exchange control regulations; downgrades in sovereign credit ratings; devaluations or non-convertibility of non-U.S. currencies; failures or disruptions in central banks, banking systems, markets, or financial exchanges; changes in monetary policies, interest rates, or interest-rate policies; political, social, and economic instability; adverse diplomatic developments; investment and repatriation restrictions; the nationalization and/or expropriation of assets; governmental intervention in the private sector; default by public and private issuers on their financial obligations (and limited recourse in connection with such defaults); the imposition of non-U.S. taxes; discrimination against foreign investors; and less liquid markets, less information, higher transaction costs (including costs associated with alternative financing, structuring (including the use of tax blockers), and exit strategies), greater difficulty in enforcing contractual obligations, fewer or different rights for creditors generally, more uncertain procedures (if any) for bankruptcy or other reorganization or liquidation proceedings, less information regarding legal and regulatory risks, less uniform accounting and auditing standards, greater price volatility, less reliable clearance and settlement procedures, more onerous regulatory requirements for private investment funds, and/or less government supervision of exchanges, brokers, market intermediaries, issuers, and other markets and market participants than generally is the case in the United States.

Further, individual non-U.S. economies may differ favorably or unfavorably from the U.S. economy in various respects, such as pace of economic growth, rate of inflation, amount of capital reinvestment, degree of resource self-sufficiency, and balance of payments position. For example, inflation and rapid fluctuations in inflation rates have had and may continue to have very negative effects on the economies and securities markets (both public and private) of certain countries in which the Adviser may invest, and therefore may have a material adverse effect on the Adviser’s investment strategies.

Certain of the Adviser's clients are expected to trade, directly or indirectly, Investments on exchanges, or use clearinghouses or clearing firms, located outside the United States. Some non-U.S. exchanges, in contrast to domestic exchanges, are "principals' markets" in which performance is solely the responsibility of the individual member with whom the trader has entered into a contract and not that of an exchange or its clearinghouse. Clients thus may be subject to the risk of the inability of, or refusal by, a counterparty to perform with respect to any such contract. Moreover, as there may be less government supervision and regulation of non-U.S. exchanges, clearinghouses, and clearing firms than of those in the United States, clients may also be subject to greater risk of failures of the exchanges on which its positions trade and/or failures of such exchanges' clearinghouses or clearing firms than it would be in the United States.

The foregoing risks are likely to be more pronounced in connection with Investments in countries with developing or emerging markets.

A client may be treated as a U.S. person for purposes of U.S. Commodities Futures Trading Commission ("CFTC") regulations, which could limit such client's ability to participate in certain non-U.S. futures. Classification as a U.S. person for such purposes may also affect the manner in which a client may participate in certain swap transactions, which could have an adverse effect on such client. Any such client's status as a U.S. person or non-U.S. person for these purposes may depend on, among other factors, the applicable Fund manager's principal place of business and the level of investment in such client by U.S. investors and, accordingly, such status may change from time to time.

Availability of Investment Opportunities

There can be no assurance that the Adviser will be able to identify and/or successfully take advantage of suitable investment opportunities. For example, it is expected that the utility of certain quantitative models developed in connection with the systematic trading strategies deployed by the Adviser will diminish or disappear (or even become negative) over time or from time to time. In addition, the Adviser decides which investment opportunities to pursue based on the information and data available to it and on its assumptions, assessments, and estimates, all of which are subject to error. Even if the Adviser makes investments (or fails to liquidate investments) with the intent of taking advantage of a perceived investment opportunity, there is a risk that any such decision will result in losses to the Adviser's clients due to unanticipated circumstances, errors in judgment, errors in execution, or other causes.

Further, the Adviser may elect to stop deploying any particular investment strategy on behalf of a particular Fund at any time, regardless of whether such strategy has been successful or whether other Funds (including DESCO Favorable Funds) continue (or begin) to deploy such strategy. If the Adviser is not able to identify and/or take advantage of suitable investment opportunities, it may alter its investment strategy and/or risk tolerances in order to deploy capital, which may have a material adverse effect on the Adviser's investment strategies. In addition, from time to time the Adviser may take actions with the express purpose of reducing the overall risk of a client's portfolio, whether in response to perceived market stress or for any other reasons. The Adviser may do so by liquidating certain Investments, by reducing or eliminating the leverage employed by such client, and/or by any other means, each of which could make it substantially more difficult for the client to take advantage of profitable investment opportunities and to realize its investment objective.

Even if investment opportunities are identified, the Adviser is currently expected to cause one or more of its clients to hold significant cash positions for extended periods of time, which may materially reduce the returns of such client(s). Alternatively, the Adviser may elect to cause one or more of its clients to hold little or no cash for extended periods of time, which may materially increase the risk of loss associated with such client's activities.

Correlation; Possible Concentration and Limited Diversification

It is expected that certain of the Adviser's clients will experience returns that are closely correlated with one or more market indices or other strategies, including various equity, debt, commodities, or currency markets around the world. In addition, the Adviser is expected to cause its clients to maintain extensive unhedged exposure for an indefinite period to various sources of market and/or other sources of risk, whether known or unknown (and thus not to be "market neutral"). Such sources of risk may include without limitation changes in the levels and/or volatility of interest rates, currency prices, commodity prices, sovereign credit spreads, corporate credit spreads, and equity prices, and other markets, as well as the correlations between any such risks. In addition, it is likely that certain aspects of the strategies deployed by the Adviser on behalf of a client, and/or that certain Investments, will be closely correlated with one another from time to time. Correlations between such aspects and/or Investments, and/or correlations between the returns of client portfolios managed by the Adviser and the returns of market indices and/or other investment vehicles, are likely to change over time. In particular, such correlations are expected to increase following any substantial changes to market structure, other unusual market activity, and/or in times of market stress (such as those caused by widespread liquidation events or significant geopolitical or economic events or crises). Any increases in the correlations described in this paragraph would reduce the level of diversification of a client's Investments, which could result in material losses, particularly for those clients deploying significant leverage. There can be no assurance that an investment in a portfolio managed by the Adviser would improve the risk/return profile of any client's or investor's overall portfolio or otherwise improve the performance of such portfolio, and such an investment may in fact result in material losses.

Although certain of the portfolios managed by the Adviser are expected generally to be relatively diversified in certain respects, in some circumstances they may be concentrated (either in absolute terms or relative to a particular market index) in particular issuers, issuances, companies, countries, industries, exchanges, counterparties, strategies, types of Investments, or other shared characteristics. Any such concentration would magnify the risks associated with the Investments held in such portfolios, including the risk of significant losses. Portfolios managed by the Adviser may not have any diversification requirements, other than any requirements that may be imposed by applicable law. In general, less diversification will tend to expose the applicable client to greater volatility and/or risk than would be the case with a more broadly diversified portfolio. Even if a particular client's portfolio were diversified, however, there can be no assurance that such diversification would reduce volatility and/or risk.

In addition, certain Investments held in a client's portfolio may represent, alone or together with Investments held in other clients' portfolios, a significant percentage of the markets in which such Investments are traded, and there are no restrictions (other than limits imposed by applicable law) on the percentage of any market that such Investments may represent. Occupying a significant position in any given market would likely result in such Investments in such market being less liquid than would be the

case with a smaller position, may subject a portfolio to additional regulatory scrutiny or restrictions, and/or may have other adverse effects.

Volatility of Investment Returns

The performance of strategies the Adviser deploys on behalf of its clients may be highly volatile (both in absolute terms and relative to expected and/or realized returns), potentially resulting in increased risks, including the risk of substantial losses. Such strategies may, by design or otherwise, have high volatility, negative skewness (or “left tail” risk), negative kurtosis (or “flat” distribution risk), high correlation with certain macroeconomic risk factors, high position concentrations, and/or other significant risks, whether in absolute terms or relative to expected and/or realized returns, or relative to certain strategies that are deployed by the Adviser on behalf of other clients. As a result, the investment returns of a client may vary significantly over time, and there is a risk of substantial losses to such client. A prospective client or underlying investor should invest with the Adviser only if it has determined that such variance of returns is consistent with its investment objectives and risk tolerances.

The risks outlined in this section may be intentional and are expected to result, in part, from the election by the Adviser not to take risk-reducing actions that it might deploy elsewhere, including where it deploys similar strategies on behalf of other clients.

In addition, the Adviser is expected to deploy certain strategies (or elements of certain strategies) for various clients. It is possible that such strategies (or elements thereof) may produce returns that are not closely correlated with, and from time to time may be inferior to, the returns associated with such strategies (or elements thereof) as they are deployed on behalf of other clients (including DESCO Favorable Funds).

Complexity of Quantitative Strategies

The Adviser will make extensive use of computer technology and quantitative analysis in both the formulation and execution of the investment strategies that the Adviser deploys on behalf of certain clients, and the Adviser’s investment decisions are expected to be informed and/or made by quantitative models. Such technology, analysis, and models (the “Quantitative Tools”) are highly complex and require or involve, among other things, the use and integration of sophisticated mathematical, financial, and other research, analysis, and calculations as well as the development and deployment of complex computer programs and systems. Although the Adviser endeavors to conceive of, design, write, test, code, maintain, monitor, and use such Quantitative Tools correctly and to deploy them effectively, each task required to do so typically is itself complex and requires substantial specialized expertise and experience. There can be no assurance that the Adviser will complete or integrate any such tasks in an effective manner, and the Adviser may be unable to deploy the Quantitative Tools successfully as a result.

In addition, the Adviser exercises significant subjective judgment throughout the development and subsequent use of the Quantitative Tools, including in connection with (a) formulating any applicable investment hypotheses; (b) constructing forecasts and models to identify specific investment opportunities related to such hypotheses; (c) designing and utilizing simulations and other tools to the extent applicable to test and analyze such hypotheses; (d) collecting, organizing, and cleaning data and other information required for such testing and for the operation of the Quantitative Tools generally;

(e) determining which forecasts and models are deployed on behalf of a client at any time and their relative weightings, including when to disable or retire particular forecasts and models; and (f) developing optimization and trading software designed to translate the forecasts and models deployed on behalf of a client into individual trades and an overall target portfolio. Further, the Adviser has discretion to override or otherwise adjust the output of the Quantitative Tools from time to time (*e.g.*, to take into account certain non-financial considerations or to reduce the risk of a client's portfolio in response to perceived market stress or for any other reason), although it is not expected that such adjustments would be made frequently, and they may not be made at all. The exercise of any of the subjective judgment or discretion outlined in this paragraph is subject to significant risk of error, the occurrence of which could have a material adverse effect on a client.

Successful deployment of the Quantitative Tools depends in large part on their ability to make predictions about the risks and prospective returns of the assets in which a client may invest. However, such predictions are probabilistic in nature, and certain of them (possibly a material fraction) will turn out in hindsight to have been incorrect. Even if the Quantitative Tools could be designed perfectly, which they cannot, the financial markets are extremely complex, and it is not possible for the Quantitative Tools to take account of all applicable data or of all of the factors that could affect the risks and/or prospective returns of assets in which a client may invest. In particular, infrequent, unforeseen, and low-probability events are expected to be especially difficult to account for in the design and deployment of the Quantitative Tools. As a result, there can be no assurance that any predictions made by the Quantitative Tools will be correct, whether in the ordinary course or in connection with such infrequent, unforeseen, or low-probability events.

Even when the Quantitative Tools make predictions that ultimately prove to be correct, a client may be unable to take advantage of such opportunities for one or more reasons. For example, the Quantitative Tools may correctly predict the prospective return of a given instrument, but it may not be feasible for a client to hold such instrument long enough to realize that return.

The Quantitative Tools are both complex and proprietary, and the Adviser is not required, and does not expect, to provide information to clients or the underlying investors of Fund clients that would permit such clients and/or investors to monitor whether the Adviser is developing and using the Quantitative Tools appropriately.

Reliance on Data in Quantitative Activities

The Quantitative Tools and the investment strategies deployed by the Adviser on behalf of certain clients are heavily dependent on data and other information (collectively, "data") for their success. Although the Adviser endeavors to collect, clean, and use such data correctly, there are numerous potential risks related to such data, including that (a) the data available to the Adviser (whether obtained directly or through third parties) may be inaccurate, incomplete, anomalous, and/or otherwise inadequate or flawed; (b) the Adviser may incorporate such data into the Quantitative Tools incorrectly; (c) such data, as well as the Quantitative Tools themselves, may become corrupted or otherwise compromised, including as a result of human error, computer failure, and/or unauthorized system access or use; (d) the development and testing of the Quantitative Tools is subject to various potential data-related biases, including sampling, measurement, survivorship, look-ahead, and data-mining bias; (e) the Adviser may be unaware of certain

relevant data or may elect not to obtain or incorporate certain data into the Quantitative Tools (e.g., if it is expensive and/or difficult to organize or clean), or third-party data providers may cease providing important data from time to time; and (f) changes to data over time may be difficult to track and incorporate (or not incorporate) into the Quantitative Tools appropriately. More generally, it is not possible to consider all data that may be applicable to each investment decision that may be made on behalf of a client. Furthermore, the Adviser makes all determinations regarding the data that is used in connection with the Quantitative Tools, including which data to obtain and incorporate, how to use such data, and how to interpret the results of any simulations or other analyses involving such data, and the Adviser may make errors in connection with any such determinations, many of which are highly complex and/or subjective. The realization of any of the risks outlined in this paragraph could significantly impair the ability of the Quantitative Tools to make accurate predictions or otherwise to serve the purposes for which they are deployed, which could have a material adverse effect on a client.

Quantitative Tools; Errors

Errors have occurred and are expected to continue to occur in conceiving of, designing, writing, testing, coding, maintaining, monitoring, and/or using the Quantitative Tools, including errors in the manner in which such Quantitative Tools function together and the errors described above with respect to the data used in connection with such Quantitative Tools. Such errors may be caused by the Adviser or its related persons, by third parties, and/or by other factors. In addition, such errors may occur in Quantitative Tools developed by the Adviser and/or its related persons and/or in Quantitative Tools provided by others (e.g., in third-party computer software or hardware). Any such errors may cause the Quantitative Tools to function differently than intended or to cease functioning altogether. Among other things, such errors may cause a client to make unprofitable investments, to make (or fail to make) investments in a manner contrary to the Adviser's intentions, and/or otherwise to take (or fail to take) actions in a manner that inhibits the successful deployment of a client's investment strategy. Any such errors may be difficult to detect and may not be detected for a significant period of time. This risk is exacerbated by the fact that elements of the systematic investment strategies deployed by the Adviser or its related persons on behalf of certain clients are expected to result in the execution of a significant number of trades over relatively short periods of time, which may result in many trades being affected by any such error before it can be detected and corrected. In addition, the complexity of the components of such investment strategies that apply the Quantitative Tools, the interactions among such components, and the complexity of the Quantitative Tools themselves, make it difficult or impossible to detect the source of any weakness or failure in such components and/or such Quantitative Tools before material losses are incurred. For example, it may be difficult or impossible to distinguish unexpected trading results caused by market activity from unexpected trading results caused by an error in the applicable Quantitative Tools. The ability of the Adviser to identify and correct such errors will depend on the diligence and expertise of particular employees, and there can be no assurance that the efforts of such employees in this respect will be sufficient or successful. Further, even if the Adviser is actually able to identify one or more errors, it may nevertheless choose not to correct such errors, including if it determines (possibly incorrectly) that such errors are immaterial.

More generally, the Quantitative Tools utilized on behalf of a client are subject to inherent limitations and are susceptible to being improved upon as experience is gained, components of the investment strategies

are refined, and markets change. However, there can be no assurance that the Adviser would be able to or would make any such improvements, and its inability or failure to do so could have a material adverse effect on a client.

Although the Adviser and its related persons have policies to address certain of the risks outlined in this section relating to errors, such policies will not eliminate such errors. Further, the Adviser is not required, and generally does not expect, to disclose to clients or underlying investors of Fund clients any errors of the type described in this section. Such clients and investors should note that the Adviser and its related persons generally will not be liable to such clients and investors for any such errors, other than as set forth in the applicable Governing Documents.

Quantitative Forecast and Model Decay; Redeployment

It is expected that the effectiveness of certain Quantitative Tools will be particularly sensitive to changes in applicable policies, regulations, or laws; changes in the number, nature, or behavior of competitors and other market participants; changes in market structure; and/or changes in economic or market conditions generally. The utility of any such Quantitative Tools is therefore expected to diminish or disappear (or even become negative) over time or from time to time. Further, any such decay is unpredictable, may occur quickly or over a more prolonged period, and may not become apparent for a significant period of time, if ever. Accordingly, the performance of a client's portfolio will depend in part on the ability of the Adviser to identify any such decay and to develop suitable new forecasts and models.

In addition, the Adviser may respond to such decay by making changes to its investment strategies, to the manner in which such strategies are implemented, and/or to the Quantitative Tools. For example, the Adviser expects that, from time to time, it will seek to apply existing Quantitative Tools developed in one context to one or more different contexts (*e.g.*, by deploying on behalf of a client Quantitative Tools developed in connection with a different client or by applying existing Quantitative Tools to new markets or instruments). However, there can be no assurance that any such changes would be effective and, in fact, such changes could increase the likelihood of the errors described above.

Overlapping Quantitative Activities and Common Investor Risk

A substantial number of other market participants deploy quantitative tools and investment strategies that overlap to varying degrees with the Quantitative Tools and with the investment strategies deployed by the Adviser on behalf of certain clients. As a result, such clients are exposed to significant risks arising from the trading and other activities of such market participants.

Electronic Trading

The Adviser expects to trade on electronic trading and order routing systems on behalf of its clients. Transactions using an electronic system are subject to the rules, regulations, and policies of the exchanges or persons offering the system or listing the instrument. Characteristics of electronic trading and order routing systems vary widely with respect to order matching procedures, opening and closing procedures and prices, trade error policies, and trading limitations or requirements. Trading on such systems also exposes a client of the Adviser to the risk that the applicable exchanges may have discretion to cancel particular orders or trades under certain circumstances, including in the event of market disruptions. Any such cancellations could affect such client's portfolio in unexpected and/or adverse ways.

There are also differences regarding qualifications for access, grounds for termination of access, limitations on the types of orders that may be entered into the system, and other applicable terms. Each of these matters may present different risk factors with respect to trading on or using a particular system. Each system may also present risks related to system access, varying response times, the behavior of other market participants, security, service providers, and the receipt and monitoring of electronic mail.

Trading through an electronic trading or order routing system is also subject to risks associated with system or component failure, whether such failure affects the hardware or software of the exchange or person offering the relevant system or of the Adviser. In the event of system or component failure, it is possible that, for a certain time period, it might not be possible to enter new orders, execute existing orders, or modify or cancel orders that were previously entered. System or component failure may also result in loss of orders or order priority. Trading venues offering an electronic trading or order routing system typically adopt rules to limit their liability, the liability of member brokers and software and communication system vendors, and the amount that may be collected for system failures and delays, which rules vary among the venues.

In addition, changes in laws or regulations related to electronic trading and order routing systems are currently being considered in certain jurisdictions. Any such changes could have a material adverse effect on certain strategies deployed by the Adviser.

Reliance on Technology; Cybersecurity; Back-up Measures

The Adviser's investment activities and investment strategies are dependent upon various computer and telecommunications technologies, many of which are provided by or are dependent upon third parties such as data feed, data center, telecommunications, or utility providers. The successful deployment, implementation, and/or operation of the Adviser's investment activities and strategies, and various other critical activities of the Adviser on behalf of its clients, could be severely compromised by system or component failure, telecommunications failure, power loss, a software-related "system crash," unauthorized system access or use (such as "hacking" or other cybersecurity breaches), computer viruses and similar programs, fire or water damage, human errors in designing, using, and/or accessing relevant systems, or various other events or circumstances. Such events or circumstances may affect the Adviser directly and/or may affect one or more third parties (including Arcesium and any third-party administrator to a Fund) that provide services to the Adviser and/or its clients.

It is not possible to provide comprehensive and foolproof protection against all such events and circumstances, and no assurance can be given about the ability of the Adviser or any third party to continue providing applicable services. Any event or circumstance that affects the Adviser's or one or more third party's computer and/or telecommunications systems or operations (including systems or operations at locations not controlled by the Adviser) could have a material adverse effect on the Adviser's clients, including by preventing the Adviser from trading, modifying, liquidating, and/or monitoring its clients' Investments. Moreover, any unauthorized access to the information systems of the Adviser or certain third parties could result in the loss, disclosure, or improper use of tangible or intangible property of the Adviser, its affiliates, or its clients, information relating to Investments, and/or personally identifiable information of the Adviser's clients or underlying investors in the Funds; any such loss, disclosure, or use could have a material adverse effect on such clients or investors.

The Adviser maintains back-up electronic books and records at their disaster recovery site, which is a fully operational data center facility. In the case of events that interrupt the Adviser's computer and/or telecommunications systems or operations, the Adviser hopes to resume trading, modifying, liquidating, and/or monitoring its clients' Investments relatively promptly, subject to any circumstances that are outside the control of the Adviser. In the case of severe business disruptions (e.g., regional power outage or loss of personnel), the Adviser may not resume such activities for one or more business days because (among other things) such resumption is dependent on other critical business constituents, such as brokers and exchanges, and on the nature of the disruption. Although the foregoing reflects the Adviser's objectives, designs, and/or plans, no assurance can be given that these objectives, designs, and/or plans will be realized, or that, in particular, the Adviser would be able to resume operations following a business disruption, and any such disruption could have a material adverse effect on the Adviser's clients.

Currencies

Client accounts generally will be denominated in U.S. dollars. Therefore, investments in such accounts generally will be subject to fluctuations in the value of a client's own domestic currency relative to the U.S. dollar.

With respect to certain of its clients' portfolios, the Adviser expects to recommend Investments that are denominated in currencies other than U.S. dollars, and there generally is no limit on the portion of Investments that may comprise such Investments. In addition, the Adviser is expected to cause such portfolios to make direct or indirect investments in, or otherwise hold, various currencies themselves. As a result, a client may be exposed to currency risks, including the risk of fluctuations in the value of the applicable currency relative to the U.S. dollar. The occurrence of any such currency risks could have a material adverse effect on such client. The Adviser may or may not seek to hedge such exposures, and there can be no assurance that any such hedging would be feasible or, if undertaken, would reduce applicable risks. A client may also incur costs in connection with hedging against currency exposures and conversions between various currencies.

Leverage; Financing

Certain of the strategies deployed by the Adviser are highly dependent on the use of leverage for their success, and certain clients are expected to employ substantial financial leverage in connection with their investment and other activities. Further, with respect to certain of its strategies, the Adviser intends to use instruments (including futures, swaps, options, and other derivative instruments) that, if such instruments were to decrease in value, could result in losses exceeding the capital allocated to them. In addition, the Adviser is expected to cause certain clients to buy certain Investments on margin and/or to enter into swaps or other derivative instruments to enhance leverage or for any other reason.

Although financial leverage may have the effect of increasing returns to a client or a Fund client's underlying investors in the event of favorable investment results, returns will be reduced by the cost of any such leverage and any investment losses will be exacerbated by leverage (possibly causing substantial losses, including losses exceeding the total value of a client's assets managed by the Adviser). In the event that aspects of the investment strategy deployed by the Adviser and/or certain of a client's Investments become increasingly correlated and experience losses (e.g., following substantial changes to market structure, other unusual market activity, and/or in times of market stress), such client's use of leverage

would materially increase such losses. More generally, the use of leverage by a client will increase the volatility of the investment performance of such client's Investments and, as a result, the volatility of the returns to the client and a Fund client's underlying investors.

The amount of leverage employed by clients is determined by the Adviser. The Adviser may cause a client to employ leverage up to the maximum amount permitted by the applicable Governing Document, by applicable law, and by the persons extending credit or otherwise providing leverage to the client. Only a limited amount of the leverage employed by a client may be apparent from the balance sheet or other financial statements of the client, and it is expected that a large portion (and possibly a significant majority or more) of the leverage employed would be effected through off-balance sheet transactions or methods, such as total return swaps (which can offer leveraged exposure to the reference instrument).

A client may incur potentially significant expenses, including interest charges and commitment fees, in connection with any leverage that it uses, and the client's returns will be reduced by such expenses. In addition, the rights of any lenders to a client (including a client's prime brokers) to receive payments of interest, additional margin, or repayments of principal generally will be senior to the rights of the client's underlying investors, and the terms of any such borrowings or arrangements may restrict certain activities of a client, including the client's ability to make distributions.

Notwithstanding the foregoing, there can be no assurance that clients will be able to borrow money, use margin, or engage in any financing transaction in order to obtain and/or employ leverage. Events in the global financial markets in past years have decreased the availability, and increased the cost, of certain forms of financing. Further, a client may not be able to obtain leverage and/or other financing, whether at a reasonable cost or at all, in the event that the Investments held by the client are not sufficiently diversified. Any inability of a client to obtain, employ, and/or maintain leverage or other forms of financing, whether at a reasonable cost or at all (as well as any decision by the Adviser not to use available leverage), would be expected to result in (possibly materially) lower returns to the client than had the client been able to obtain, employ, and/or maintain (or had elected to use) such leverage or other financing. Conversely, the Adviser may determine to obtain financing for clients despite the substantial costs or other onerous terms of that financing. By way of example, should a client require capital on an emergency basis, such as when that client is suffering substantial losses, the Adviser may agree to "rescue financing" on terms that are significantly favorable to the lender. Any such arrangement could have a material adverse effect on a client.

Derivative Instruments

The Adviser may cause certain clients to trade derivative instruments. Derivative instruments are financial instruments that derive their performance, at least in part, from the performance of an underlying asset, index, interest rate, or other reference instrument. Examples of derivative instruments include swaps, futures, forwards, options, warrants, options on futures, and swaptions. To the extent such Investments are consistent with the applicable client's investment objectives, the Adviser will have authority to trade all types of derivative instruments on behalf of such client without limitation other than any limitations imposed by applicable regulations and/or by the client's counterparties and clearing brokers.

Investments and trading in derivative instruments are generally highly speculative and involve various risks that are different in certain respects from, and are possibly greater than, the risks associated with investing directly in the applicable underlying assets or reference instruments. Examples of various risks associated with derivative instruments include without limitation (a) market risk, (b) changes in interest rates, inflation, currency prices, credit spreads, and/or commodity prices, (c) complexity, (d) a high degree of leverage, (e) illiquidity, (f) the absence of reliable price quotes and/or a reliable trading market, (g) unstable correlation between a derivative instrument and the underlying asset or reference instrument, (h) volatility, (i) the inability to hedge related risks effectively or at all, (j) tax risk, (k) governmental intervention to influence prices, (l) fiscal and monetary policies, (m) political or economic events or instability around the world, (n) legal or regulatory uncertainty, (o) position limits or other trading restrictions, (p) insider trading and other forms of market manipulation by other market participants, and (q) non-performance of counterparties (including direct or central counterparties).

A decrease in the value of the derivative instruments held by a client of the Adviser could result in losses exceeding the capital allocated to them. Further, because trading such derivative instruments often requires amounts of capital that are small relative to the instruments' notional value, such trading is expected to result in leveraging effects for such client's overall portfolio.

In addition, agreements that govern the Adviser's investments in derivative instruments typically impose obligations on the Adviser or the applicable client. Under such agreements, a failure to observe such obligations (*e.g.*, a failure to meet a required margin call) may result in the declaration of an event of default, which could permit the counterparty to exercise a range of remedies, possibly including the ability to unilaterally terminate Investments governed by such agreements and to require the Adviser's client to pay such counterparty the replacement cost of the terminated Investments based on prices determined by such counterparty, which may be materially less favorable than market prices. Such agreements also typically include payment or valuation provisions that require determinations by a calculation agent or a valuation agent (typically the dealer). If the Adviser is unable to negotiate favorable terms for such provisions or rights to dispute such determinations, the counterparty may have rights to make determinations that adversely affect the applicable Investments. In addition, there can be no assurance that any terms negotiated by the Adviser would be effective in mitigating such adverse actions by the applicable client's counterparty.

Trading derivative instruments might deprive a client of certain tax benefits obtained from trading the underlying assets or reference instruments and/or, with respect to over-the-counter derivative instruments, from trading otherwise similar exchange-traded instruments.

Trading in options or warrants involves a risk of loss related to the premium for the option or warrant as well as a risk of loss related to the value of the underlying security or instrument, which loss in either case could be substantial. The writing of an uncovered option by a client may result in an unlimited loss of a client's capital within a relatively short period of time (including, for the avoidance of doubt, a loss in excess of the capital devoted to any such option). In addition, options may be cash-settled, physically-settled, or settled by entering into a closing transaction, each of which entails certain risks, including that (a) closing auctions for cash-settled options are particularly susceptible to idiosyncratic events and/or manipulation; (b) the premium paid for entering into a closing transaction may exceed the premium received when the option was written; and (c) the market for any particular option may become illiquid,

which may prevent a client from entering into a closing transaction. The realization of any such risks could result in material losses.

Trading in futures contracts and options on such contracts may be subject to limitations imposed by regulatory authorities and relevant exchanges that may prevent a client from liquidating positions and could subject such client to substantial losses. Many derivative instruments, including forward contracts and options on forward contracts, are not traded on exchanges and are generally not regulated.

The regulation of derivative instruments is evolving, and changes in such regulation may adversely affect Investments in client portfolios. For example, several U.S. and non-U.S. regulatory authorities have adopted, and other regulators have proposed or considered, rules for oversight and/or regulation of the previously largely unregulated market in over-the-counter derivatives.

Credit-Related Investments

The Adviser is expected to cause certain clients to purchase, sell, hold, trade, structure, restructure, and otherwise acquire or dispose of direct or indirect interests in certain credit-related investments, including various types of bonds, bond futures, mortgage-backed securities, credit-related exchange-traded funds and exchange-traded notes, loans, and other forms of indebtedness.

The discussion in this section is based in part upon principles of U.S. federal and state laws. However, it is possible that a significant portion of a particular client's portfolio will be invested in non-U.S. jurisdictions, and there may be no limit on the portion of such portfolio that can be invested in such Investments. With respect to Investments relating to non-U.S. borrowers, there can be no assurance that the laws of certain non-U.S. jurisdictions (and/or the consequences of such laws) would not result in different or additional risks.

General Risks; Default

In general, any Investments by a client of the Adviser in credit-related investments will entail various market risks (*i.e.*, the risk that certain market factors, including interest rates, credit spreads, and supply and demand imbalances caused by the activities of other market participants will cause the value of the applicable Investment to decline) and issuer-specific risks (*e.g.*, the risk of non-payment of interest and principal and the risk that changes in an issuer's credit quality causes the value of the applicable Investment to decline). Further, the Adviser may cause a client to invest in debt instruments that are currently in default or that may later experience events of default. Any default in payment under any debt instrument owned by a client of the Adviser may result in material losses to such client.

Certain of the Adviser's clients may also invest in pools of loans, which may be subject to additional risks, such as high correlation of the performance of the loans in any such pool.

Debt Market Conditions

In recent years, disruptions in debt markets have affected the price of, as well as participants' ability to make, certain types of Investments, and there can be no assurance that disruptions will not reoccur in the future. Any such disruptions may negatively affect a wide range of issuers and may increase the likelihood that such issuers will be unable to make principal and interest payments on, or refinance, outstanding debt when due. Moreover, the risk that such disruptions will affect an issuer's ability to pay its debts and

obligations when due is enhanced if such issuer in turn provides credit to third parties or otherwise participates in the credit markets. In the event of a default by an issuer, the Adviser's clients could lose both capital invested in, and anticipated profits from, any affected Investment. The reoccurrence of the events described in this paragraph, or other similar or dissimilar events, could have an adverse impact on the availability of credit to businesses generally and may lead to an overall weakening of the U.S. and other economies around the world. In addition, any disruptions of this kind may affect a client's ability to procure its own financing arrangements and/or the terms of any such arrangements.

Secured Loans; Unsecured or Subordinated Loans

Certain clients of the Adviser may invest in loans secured by property of the borrower. Investments in such loans are subject to the risk that some or all of the underlying collateral will decrease in value to an extent that the value of such collateral is insufficient to satisfy the borrowers' payment obligations under such loans in the event of a default. Measures taken by the Adviser to protect clients' interests in loans in which they may invest, including the validity or enforceability of such loans and the creation and maintenance of the anticipated priority and perfection of applicable security interests, may prove to be inadequate. There can be no assurance that any collateral would be sufficient to cover the obligations being collateralized or the amount of a client's investment. Any collateral may decline in value; may be subject to competing claims of creditors; may be difficult to recover or sell due to legal, regulatory, or other reasons; or otherwise may be inadequate to allow a client to recoup its investment.

The Adviser may cause certain clients to invest in loans that are secured with a junior priority interest or lien on collateral that is subordinated to senior secured obligations. Such loans are subject to a risk that the cash flow of the related borrower and the collateral securing such a loan may be insufficient to make scheduled payments after giving effect to any obligations in respect of the senior secured loans of the borrower. As a result, in certain situations little or no recovery may be available following a default with respect to such a loan. Such loans are also expected to be less liquid than senior secured loans. Such loans are intended to be senior in right of payment and priority to any unsecured obligations, but the priority of such loans could be challenged, whether in bankruptcy court or otherwise. Any successful challenge could have a material adverse effect on the value of the applicable Investment.

Finally, the Adviser may cause a client to invest, directly or indirectly, in various types of unsecured indebtedness (such as senior unsecured, subordinated, or general indebtedness) that would be junior in priority to the claims of secured creditors. Such instruments are subject to a risk that the cash flow of the related borrower may be insufficient to make scheduled payments after giving effect to any obligations in respect of the borrower's senior secured loans. As a result, in certain situations little or no recovery may be available following a default with respect to such an instrument. Such instruments are also expected to be less liquid than senior secured loans. In addition, during a bankruptcy of the borrower, the claims of secured or senior creditors may exhaust some or all of the assets of a borrower before unsecured, subordinated, or general creditors may participate in such assets, thus materially adversely affecting the value of the applicable Investment.

Lender Liability; Equitable Subordination; Fraudulent Conveyance

Investments structured as loans or other forms of indebtedness may subject clients to claims of lender liability and/or may be subject to claims of equitable subordination or recharacterization. The risk of

such claims may be exacerbated if a client holds a significant equity position and/or certain management positions (including representation on the board of directors) with respect to the applicable borrower. It is also possible that such claims could arise without the direct involvement of a client or the Adviser with the applicable borrower. Any successful claims of lender liability against a client or any equitable subordination or recharacterization of any Investment (which may result in the claims of a client being subordinated to the claims of certain or all other creditors) could have a material adverse effect on such Investment held by a client (possibly resulting in losses that exceed the value of such Investment) and thus on the client itself.

Investments structured as loans or other forms of indebtedness may also be subject to claims of fraudulent conveyance if the borrower was insolvent or rendered insolvent. Any successful claims of fraudulent conveyance or preferential payment with respect to an Investment could have a material adverse effect on such Investment and, possibly, on a client, and the client and/or one or more of its underlying investors may be required to return related payments and could experience losses that exceed the value of such Investments.

Certain Additional Risks

Certain loans in which the Adviser may cause a client to invest may be subject to additional obligations, including intercreditor agreements (pursuant to which certain creditors agree to restrictions on their rights) or future extensions of credit to the borrower. Such obligations may materially adversely affect the value of such loans, such as by limiting the ability of the applicable client to exercise its rights under a loan agreement or by increasing such client's exposure to the borrower.

Asset-Backed Securities

The Adviser may cause certain clients to invest directly or indirectly in asset-backed securities, including mortgage and other asset-backed security indexes, exchange-traded funds, exchange-traded notes, and Mortgage TBAs (as defined below). Asset-backed securities are structured securities collateralized or backed by another asset or assets, such as residential or commercial mortgages, home equity loans, auto loans, student loans, installment sale contracts, credit card receivables, commercial loans, corporate loans, investment-grade or high yield debt, other asset-backed securities, or a mix of such assets. Asset-backed securities may include instruments such as commercial mortgage-backed securities, residential mortgage-backed securities, collateralized mortgage obligations, collateralized bond obligations, collateralized debt obligations, and collateralized loan obligations, and may include synthetic structures that are backed by derivative instruments instead of by the relevant loans, bonds, or other assets themselves. Other types of asset-backed securities, including interest-only, inverse interest-only, and principal-only securities, may participate in only certain types of income streams generated by the underlying assets.

Asset-backed securities are often extremely complex, and their values and returns may be subject to significant fluctuations as a result of relatively small changes in interest rates; the rates of prepayments, defaults, or late payments with respect to the relevant underlying assets; or other factors. The value of an asset-backed security is highly dependent upon the performance of its underlying assets and upon the expected quality of the underlying assets.

Substantial leverage may be inherent in the structure of some asset-backed securities. Consequently, asset-backed securities may present a greater degree of risk than other types of fixed income securities and may be more volatile, less liquid, and more difficult to price accurately than less complex securities. The Adviser may recommend hedging transactions in certain circumstances to protect against interest rate movements, prepayment risk, defaults, or other factors, but there can be no assurance that such hedging transactions, if any are undertaken, would fully protect a client against such risks.

Asset-backed securities are typically separated into tranches representing different degrees of credit quality, with lower-rated tranches being subordinate to senior tranches. It is expected that the returns on the junior tranches of such securities would be especially sensitive to the rate of defaults in the collateral pool and would be subject to a substantially greater risk of non-payment than would senior tranches of such securities. There are no restrictions on the tranches in which clients of the Adviser may directly or indirectly invest.

Because mortgage-backed securities comprise pools of underlying loans, such securities are subject to risks similar to those applicable to investments in particular mortgage loans. In addition, certain types of mortgage-backed securities contain highly complex interest-rate and cash-flow provisions and may be highly volatile with respect to yield, total return to maturity, and market value. For example, a mortgage-backed securities position may experience losses due to defaults in one or more underlying mortgage loans, but it may be difficult to assess the extent of such losses because the resolution of such defaults may occur only after extended settlement negotiations, or after the foreclosure and subsequent liquidation of the underlying properties, which could take a significant period of time.

Asset-backed securities backed by other types of loans may be subject to similar risks. Even though assets typically support the underlying loans, full recovery of a loan in the event of default may not be possible due to litigation costs or delays, legal uncertainties, limited marketability or reduced valuations of the asset, and other similar or dissimilar factors. Accordingly, any defaults may materially adversely affect a direct or indirect Investment in asset-backed securities. In addition, the quality of certain asset-backed securities in which clients of the Adviser may invest, directly or indirectly, is subject to the accuracy and completeness of representations made by the borrowers under the underlying loans. Accordingly, clients of the Adviser that invest in asset-backed securities are subject to the risk that originators of certain such asset-backed securities fail to adequately verify such representations, whether because of defects in the verification systems used by such originators or otherwise.

Investments by a client in mortgage-backed securities on a forward pass through or “to be announced” basis (“Mortgage TBAs”) are expected to involve certain additional risks. For example, the settlement cycle for Mortgage TBA trades is unusually long. As a result, such trades involve risk that a client’s counterparty will not deliver the applicable instrument as promised or will otherwise fail to meet its obligations. Because the Mortgage TBA market is also highly interdependent, any such counterparty failure could have wide-ranging effects on pricing and liquidity across the market as a whole. Further, although the parties to a Mortgage TBA transaction typically agree on the key economic terms of the instrument at the time of the trade, the actual pool of assets underlying such instrument is not identified until shortly before the settlement date. To the extent that the actual pool has lower credit quality and/or worse payment characteristics than the expected pool, the underlying Mortgage TBA could be adversely affected.

Sovereign Debt

Certain clients of the Adviser are expected to invest, directly or indirectly, in sovereign debt instruments. Certain sovereign issuers have in the past experienced substantial difficulties in servicing their external debt obligations, which has led to defaults on certain obligations and the restructuring of certain indebtedness. Countries such as those in which clients of the Adviser may invest may experience high rates of inflation, high interest rates, exchange rate fluctuations and currency devaluation, large amounts of external debt, balance of payments and trade difficulties, political and/or social uncertainty and instability, and/or poor economic performance or conditions. Any of these factors, as well as other factors, could materially increase the risk of a total or partial default by such sovereign issuers and/or the risk of the restructuring of all or certain indebtedness of such sovereign issuers, either of which may result in substantial losses for the Adviser's clients.

Distressed Debt and Other Investments

The Adviser may cause certain clients to make investments in instruments issued by or otherwise related to companies that at the time of the applicable investment are experiencing, or subsequent to the applicable investment do experience, various forms of financial, business, operational, legal, and/or other distress or impairment, including companies involved in bankruptcy or other reorganization or liquidation proceedings (collectively, "Reorganization Proceedings"), as well as those emerging from Reorganization Proceedings and those seeking financial restructurings or reorganizations outside such proceedings. These Investments involve a high degree of risk that the total value of the applicable Investment may be lost.

The Adviser also may cause clients to purchase from banks, other financial institutions, or other investors bank loans (whether through assignment or participation transactions) and other forms of direct or indirect indebtedness (including revolving loans and letters of credit) of distressed companies. Investments in loan participations would expose a client to risks related to the creditworthiness of the banks or other financial institutions issuing such participations. As a holder of participation interests or as a member of a loan syndicate, such client may not be able to assert any rights against the borrowers of the underlying indebtedness and may need to rely on the financial institutions issuing the participations or the lead or agent bank to assert such rights. These financial institutions and banks may have reasons not to assert their rights, whether due to a limited financial interest in the outcome, other relationships with the borrowers, the threat of potential counterclaims, or other reasons.

The Adviser also may cause clients to purchase bankruptcy claims (including trade claims), which are amounts owed to creditors of a distressed company. Investments in bankruptcy claims are difficult to value. Moreover, bankruptcy claims generally are illiquid and non-interest-bearing, and there can be no assurance that a company will be able to satisfy its obligations under a claim.

Sophisticated financial and legal analysis is required to invest successfully in distressed companies, and there can be no assurance that the Adviser will adequately perform such analysis. Among other things, the Adviser may not correctly determine the value of the collateral (if any) supporting the Investments held by a client or the prospects for a successful reorganization or similar action. Such Investments may be subject to additional risks, such as significant volatility in the value of the Investment; the involuntary exchange of such Investments for cash, financial instruments, or other property (including illiquid

Investments) having substantially less value than the original Investment; and/or delayed or extended payment for such Investments.

In addition, Reorganization Proceedings, as well as other financial restructurings or reorganizations, are subject to a number of risks. For example, such proceedings may be of uncertain duration; may be subject to unanticipated and possibly lengthy delays; may involve substantial legal, professional, and administrative costs to the reorganizing company and its investors; may involve other factors that are beyond the control of the reorganizing company and its investors; and/or may result in the liquidation of the reorganizing company. Further, the Adviser, on behalf of a client, may decide to become involved in the restructuring of a particular distressed company, including through representation on creditors' or equityholders' committees or other groups (whether formal or informal) and participation in litigation or direct negotiations with the company's management, each of which may involve special risks and/or conflicts of interest for a client. The occurrence of any of these risks could have a material adverse effect on the value of the applicable Investment or on the Adviser's ability to dispose of or to act to protect the value of such Investment.

Administrative costs related to Reorganization Proceedings may be substantial and generally are paid from the reorganizing company's assets prior to any payments to creditors or equityholders. Certain other claims, including claims for taxes, have priority by law over claims of creditors and equityholders. Such administrative costs and other claims could materially reduce the return to the Adviser's clients on a particular Investment.

Low Creditworthiness Investments

A portion of the Investments held in connection with certain of the Adviser's investment strategies may, whether at the time of investment or at a later time, be unrated; rated below "investment grade" by recognized rating agencies; and/or defaulted. Unrated, sub-investment-grade, and defaulted Investments generally involve greater risk of loss in either a short or a long position than do investment-grade Investments. For example, the market values and yields of unrated, sub-investment-grade, and defaulted Investments generally react more dramatically to changes in general economic conditions, in the levels of interest rates, and in the financial condition and prospects of their issuers than do those of more highly rated Investments. During periods of economic downturn or rising interest rates, issuers of unrated, sub-investment-grade, and defaulted Investments may experience, to a greater degree than issuers of more highly rated Investments, certain forms of financial stress that could materially adversely affect such Investments. Such issuers may be in early stages of development; may not have proven operating histories; may be operating at a loss or have significant variations in operating results; may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence; may require substantial additional capital to support their operations, to finance expansion, or to maintain their competitive position; or may otherwise have a weak financial condition. Additionally, such issuers may be highly leveraged, which may present greater risks to these companies.

Adverse publicity and investor perceptions, whether based on fundamental analysis, market rumors, distress of related issuers, or other sources, may materially adversely affect such low creditworthiness Investments. Adverse effects on long positions in these Investments include without limitation the increased probability of default, the decreased value of any recovery in connection with a reorganization

proceeding, decreased secondary market prices (if any) for these Investments, and general decreases in the liquidity of these Investments. In addition, the lower liquidity of unrated, sub-investment-grade, and defaulted Investments, as well as other factors outlined above, could exacerbate the risks of short positions in these Investments.

Certain forms of low creditworthiness Investments may be issued pursuant to note indentures, promissory notes, or other indicia of indebtedness that contain fewer debt covenants, rights, or remedies compared to those afforded to lenders under a credit agreement. As a result, such Investments would be more sensitive to certain risk factors as compared to similar debt instruments with greater debt covenants, rights, or remedies. Moreover, the lack of certain financial covenants with respect to such Investments may result in a higher risk of loss.

Credit Ratings

Certain of the bonds, loans, or other forms of indebtedness in which a client of the Adviser may invest may receive ratings from Moody's, Standard & Poor's, Fitch, or another credit rating agency. No assurance can be given that ratings assigned by a credit rating agency will not be withdrawn or revised downward if, in the view of such credit rating agency, circumstances so warrant. Any such withdrawal or downward revision with respect to an Investment could have a material adverse effect on such Investment. Such ratings reflect only the views of those credit rating agencies, which views may prove inaccurate, and the Adviser is not obligated to obtain such ratings or to provide any such ratings to its clients (or, in the case of Funds, to underlying investors).

Energy-Related Investments

The Adviser is expected to make various energy-related investments on behalf of certain of its clients. Energy markets operate in a politically charged environment and are subject to extensive regulation by various U.S. federal, state, local, and/or non-U.S. governmental authorities. These authorities directly or indirectly set, approve, or accept certain rates and contracts; establish or amend import and export controls; encourage or discourage capital projects; oversee energy transmission and distribution infrastructure; regulate energy markets; and otherwise govern matters relating to energy. The political environment and the high degree of regulation increase uncertainty with respect to pricing, supply, transmission, and/or delivery in energy markets, and could materially adversely affect any applicable client.

There is often only limited price information available in markets for trading energy and other energy-related Investments, and certain of this price information may be unreliable because it may reflect illiquidity, regulatory intervention, and/or improper behavior by market participants, including possible manipulation. Many of these markets also suffer from high volatility and a lack of transparency, and data from these markets may not prove useful when creating or applying quantitative trading strategies. In addition, many of these markets function or are regulated in isolation. These factors may result in limited coordination among markets and market participants and limited usefulness of various data.

Investments by the Adviser might not be based upon reliable data, and may be made based upon the available data without correction. Also, applying models based upon data from other markets or even earlier time periods may prove unprofitable as a result of the limited applicability of these models across

markets or time periods. Investments based upon the data described herein could have a material adverse effect on a client of the Adviser, particularly because such investments may be made on the basis of quantitative investment analysis and certain risk models that depend on reliable historical information for their successful development and implementation.

The markets for trading energy and energy-related Investments are affected by the number and type of market participants, which have varied significantly over time. Risks associated with illiquidity and volatility of energy markets may be exacerbated during periods in which many participants exit the market or significantly reduce their trading activities, or in which trading decreases generally due to market redesign or regulatory or other changes. In other periods, the depth and liquidity of such markets may change depending upon the mix of market participants such as suppliers, distributors, end users, and “financial” investors. Regulatory authorities or market participants may respond to any actual or perceived uncertainty by changing the available products or services, the accessibility of markets, regulation, or other matters relating to the industry. Any such change could have a material adverse effect on a client of the Adviser.

Many regulators or operators of energy markets in which the Adviser may participate have authority to impose price caps, price restrictions, retroactive price changes, position limits, “circuit breakers,” and other mechanisms to address volatility or manage supply and/or demand in such markets. Various authorities may intercede in markets to exercise this authority. Such interventions may be difficult to predict and may significantly affect the markets in which the Adviser operates or hopes to operate. Any form of price cap, price restriction, or other mechanism implemented to try to control or adjust pricing, supply, or other market variables could have a material adverse effect on any client on whose behalf the Adviser deploys energy-related strategies.

Commodities

The Adviser is expected to cause certain clients to invest in commodities, commodity futures contracts, and other instruments, interests, or property relating to or commonly regarded as commodities, along with rights and options, including puts and calls, with respect to any of the foregoing (collectively, “Commodity Interests”), including Investments in energy-related commodities, such as natural gas, electricity, coal, oil, and oil products; weather; metals; minerals; agricultural products; livestock; and emissions allowances and other environmental commodities.

The prices and/or liquidity of Commodity Interests may be highly volatile and may be influenced by a multitude of factors, including supply and demand relationships; interest rates; international trade; rates of inflation; governmental regulation (including import and export controls) and taxation; monetary and exchange control policy; policies of commodities exchanges; and environmental, social, political, or economic events. This volatility may be further magnified by commodities investors’ use of leverage, including leverage resulting from low margin deposits required with respect to certain types of Commodity Interests. Many of a client’s positions in Commodity Interests are expected to be highly leveraged, and as a consequence relatively minor price changes could result in immediate and substantial losses to the applicable client.

In addition, the Adviser's ability to trade successfully in certain commodities markets on behalf of its clients may be undermined by limited or unreliable price information and/or improper behavior of market participants, including price fixing, market manipulation, and other predatory practices.

No actively traded market may exist for certain Commodity Interests, which may impair the ability of the Adviser to sell or to realize, on behalf of its clients, the full value of Investments in such Commodity Interests.

Commodity Interests and/or commodity markets are generally subject to complex and stringent laws, as well as to extensive and, in certain cases, evolving regulations imposed by applicable governmental agencies or exchanges. The Adviser's clients may bear substantial costs complying with such laws and regulations, and any actual or alleged violation of such laws or regulations may involve civil or criminal penalties; expose such clients to lawsuits from public and private parties; and/or cause such clients to incur material legal, contractual, settlement, reputational, or other costs. In addition, changes in such laws or regulations may increase uncertainty among market participants, may undermine contractual or market expectations of such clients and other market participants, may increase compliance costs, and may adversely affect liability of market participants (including such clients).

The Adviser does not currently expect that any of its clients will be required to make or take physical delivery of any commodities underlying its Commodity Interests. However, it is possible that such a client may be required to make or take such delivery in certain situations, including in the event of an extended shut down of a commodity exchange on which such Commodity Interests trade or in any other situation that severely limits the liquidity of any Commodity Interests. A client may also make or take physical delivery of commodities if the Adviser determines such client should do so. Making or taking physical delivery of commodities would result in additional risks and costs to a client, including those associated with acquiring, storing, transporting, hedging, insuring, and reselling such commodities. In addition, such client may lack necessary licenses or approvals to make or take delivery of such commodities, and such delivery may expose such client to additional laws and regulations that would not otherwise apply to such client's trading of Commodities Interests. The realization of any such risks could have a material adverse effect on such client.

Small or Midsized Companies

Certain Investments held by the Adviser's clients are expected to be issued by, or otherwise related to, small or midsized companies. Such Investments may involve greater risk than comparable Investments issued by or related to large companies. Small or midsized companies may face intense competition for important resources, such as experienced management and personnel, capital, and financing. Such companies may be at a disadvantage relative to larger companies, including with respect to sales or distribution resources, operational and financial controls, or other economies of scale. Small and midsized companies may be more likely to experience financial, operational, legal, and/or other distress.

Investments in or related to small and midsized companies may be less liquid or exhibit more price volatility than Investments in large companies.

Illiquid Investments; Inability to Trade

The Adviser is expected to cause clients to make investments characterized by varying degrees of liquidity. Any illiquidity with respect to the Investments recommended by the Adviser may or may not be anticipated and/or may vary over time. Further, certain types of instruments and certain Investments held by a client may be liquid initially but subsequently may become illiquid as a result of market or other factors. Such illiquidity could last indefinitely and would adversely affect the value of such instruments and Investments. To the extent that any such instruments or Investments are critical to the ability of the Adviser to carry out its investment strategy, such persistent illiquidity could preclude a client from trading in such instruments or Investments and would have a material adverse effect on such client.

Illiquid Investments may constitute a substantial portion of a given client's assets managed by the Adviser and may involve significant transaction costs when they are purchased or disposed of, whether through adverse price movements (whether related to liquidity or otherwise), increased spreads between quotes and dealer mark-ups (which may already be material for such Investments), and/or other transaction costs.

In the event that a client requests or plans to effect a withdrawal of all or a portion of its capital managed by the Adviser, the Adviser may choose not to liquidate any Investments (quickly or otherwise) if it believes that such liquidations are not warranted by market conditions or other considerations. Where the client is a Fund that may not have sufficient cash available to fund such withdrawals, rather than liquidate certain or any Investments, the Adviser may suspend or delay withdrawals and/or elect to distribute certain Investments in kind. Conversely, the Adviser may choose to liquidate illiquid Investments (quickly or otherwise) if it believes that such liquidations may be warranted by market conditions or other considerations. The rapid and substantial liquidations that might be initiated by the Adviser in the event of an actual or anticipated withdrawal of a large portion of a client's capital, or an actual or anticipated increase in margin or other collateral requirements, likely would result in substantial liquidity-related losses, and would be expected to reduce (possibly materially) the value of the client's portfolio (or, in the case of a Fund, the value of the interests held by both withdrawing and non-withdrawing underlying investors in such Fund). The selection of which Investments held by a client would be liquidated (in whole or in part) under such circumstances would be made by the Adviser. If the Adviser were to liquidate more liquid Investments in order to fund withdrawals, the client (or, in the case of a Fund, the remaining non-withdrawing underlying investors in such Fund) might be disproportionately exposed to less liquid Investments that may be, among other things, more difficult to price and/or more volatile.

In addition, the Adviser may cause clients to acquire Investments that are or become subject to resale restrictions due to regulatory, statutory, contractual, or other similar provisions that limit the ability of the Adviser to liquidate such Investments. Such restrictions could cause liquidity-related losses, could result in exposure to unhedged positions, and could have other material adverse effects on clients.

With respect to Investments for which a secondary market does exist, a client of the Adviser could suffer material losses were it unable to open or liquidate positions, whether due to changes or instability in market conditions, trading halts due to regulatory limits (such as daily-price-fluctuation limits), emergency trading bans, counterparty actions, and/or other factors. In addition, the agreement

governing a particular over-the-counter instrument held by a client of the Adviser may provide such client's counterparty with discretion as to whether a particular position may be opened or closed under the agreement, regardless of the interests of such client.

Insurance- and Reinsurance-Related Instruments and Products

The Adviser may cause certain clients to purchase, sell, hold, trade, structure, restructure, and otherwise acquire or dispose of instruments that offer direct or indirect exposure to insurance, reinsurance, and insurance- and reinsurance-related risks (collectively, "Insurance-Related Investments"). These instruments may include insurance-linked securities, such as catastrophe bonds, catastrophe options, and catastrophe futures; insurance-linked derivatives; and securities in other public or private entities (insurance- or reinsurance-related or otherwise). Insurance-Related Investments that may be held by a client are generally characterized as having values that are directly or indirectly tied to the occurrence or non-occurrence of catastrophic or other events that are traditionally the subject of insurance.

The success of a client's Insurance-Related Investments is largely dependent on the ability of the Adviser to forecast the probabilities and risks of various events. However, such probabilities and risks are difficult to forecast accurately, and any such forecasts will require subjective judgments. In addition, models that seek to forecast such probabilities and risks with respect to the type, frequency, and severity of such events are frequently inaccurate and/or inadequate. Errors or inaccuracies in such forecasts could have a material adverse effect on Insurance-Related Investments that were based in whole or in part on such forecasts. In addition, it is possible that the occurrence of insured risks (e.g., natural disasters or other catastrophic events) would result in potentially material losses for a client, even in the absence of errors or inaccuracies in such forecasts.

There is often only limited price information available in markets for Insurance-Related Investments. There may not be active secondary markets for certain Insurance-Related Investments. Where a secondary market does exist, there is no assurance that it would have a sufficient number of participants to provide efficient or even adequate pricing or liquidity. As a result, Insurance-Related Investments are generally highly illiquid and their prices may be highly volatile, thus resulting in an increased risk of material losses. This illiquidity and price volatility may be particularly pronounced during certain seasons or around the time of a specific weather-related event, even in cases where a particular Insurance-Related Investment has only a limited apparent connection to such season or event.

Short Sales and Leveraging Effects

Certain investment strategies deployed by the Adviser on behalf of its clients involve the execution of "short sales." In a short sale, an investor borrows securities from a lender and sells such securities to another person while retaining an obligation to return to the lender an equivalent quantity of the borrowed securities at a later date. Short selling allows an investor to profit from declines in a security's value. Although short sales may be useful under certain circumstances in the pursuit of potential profit opportunities and/or the mitigation of certain forms of risk, they may result in an unlimited loss of capital within a relatively short period of time, whether due to price changes, recalls sought and penalties imposed by lenders of the borrowed securities, short squeezes, unavailability of the securities at the time the Adviser desires to close out the short position, or other causes. Purchasing securities to close out the short position can itself cause the price of such securities to rise, further exacerbating the loss.

Further, the Adviser may in certain circumstances make use of the proceeds of short sales to support an increase in the client's positions in various Investments, resulting in leveraging effects for the client's overall portfolio. It is anticipated that, over the long term, the success of certain investment strategies deployed by the Adviser will be materially affected by the leveraging effects associated with short selling, and applicable clients may employ leveraging effects up to the maximum amount permitted by applicable law and regulation and by such clients' counterparties. Although such leveraging effects may have the effect of increasing returns experienced by such clients in the event of favorable investment results, returns experienced by such clients will be reduced by the cost of borrowing, and investment losses and other losses will be exacerbated by such leveraging effects (possibly causing substantial losses). Such leveraging effects may increase the volatility of the investment performance of such clients' Investments and, as a result, the returns experienced by such clients.

A number of countries from time to time have imposed restrictions or outright bans on short sales and related transactions in certain types of securities or instruments (such as equity securities in a particular sector), making it difficult or impossible for many market participants (including participants employing investment strategies similar to the investment strategies deployed by the Adviser) either to continue to implement their strategies or to control the risk of their open positions. In addition, short sales historically have been, and continue to be, subject to certain restrictions under U.S. federal securities laws. Other countries also have adopted or may adopt short-selling restrictions and short-position reporting requirements. Any ongoing or future regulatory limitations on short selling, or any ongoing or future requirement to disclose short sales or short positions, may materially adversely affect the Adviser's ability and willingness to implement strategies based on or involving short sales on behalf of clients.

Financing methods employed or derivative transactions entered into by a client of the Adviser may involve the economic equivalent of short positions in various Investments, which could have economic consequences substantially similar to those caused by the execution of short sales.

Hedging Transactions

The Adviser may seek to limit a client's exposure to certain risk factors through the use of various hedging techniques (*e.g.*, it is expected that certain clients generally will endeavor to be "market-neutral" with respect to certain equity market risks). However, there can be no assurance that such hedging techniques will be employed, will be effective if they are employed, or will result in higher or more stable returns than would have been the case had they not been employed. Moreover, such hedging techniques are expected generally to limit any potential gain that might result from an increase in the value of a hedged position.

It should be noted that any hedging techniques employed by the Adviser would be intended to reduce a client's exposure to certain risks under certain circumstances and not to reduce all forms of risk. Further, the Adviser generally will not be obliged to hedge any particular form of risk in any particular situation and generally may, without notice to or the consent of the applicable client (or in the case of Funds, the underlying investors), cause such client to assume any risk as the Adviser may determine. Moreover, from time to time, all or a portion of a given client's portfolio may have (possibly extensive) unhedged exposure, whether intentional or unintentional, to various market movements, style factors, and other sources of risk anywhere in the world, whether known or unknown (*e.g.*, changes in the levels and/or

volatility of interest rates currency prices, commodity prices, sovereign credit spreads, corporate credit spreads, equity prices, and other markets, as well as correlations between any such risks).

Under certain circumstances, hedging techniques intended to reduce certain forms of risk would actually increase risk, whether due to the unintended market impact of hedging transactions, leverage effects associated with hedging positions, unexpected adverse price movements of a hedging instrument relative to the hedged instrument (*i.e.*, adverse changes in the “basis” between the hedging and hedged instrument), lower liquidity of the hedged and hedging positions relative to an unhedged position, the general risks related to the use of derivative instruments, or other factors. In addition, even where the Adviser seeks to hedge a particular risk, a suitable hedging transaction might not be identified by the Adviser, might not be available to the applicable client, might be unreasonably expensive, and/or might not be successfully executed.

Portfolio Turnover

Certain investment strategies that are expected to be deployed by the Adviser are based at least in part on short-term considerations and thus are characterized by rapid portfolio turnover. Such rapid turnover is expected, among other things, to cause clients to experience substantial brokerage fees, commissions, and/or commission-equivalents, and/or increased aggregate liquidity costs (or price “slippage”), any or all of which could have a material adverse effect on the investment performance of the Adviser’s investment strategies.

Buffers; Cash and Cash Equivalents

It is expected that a significant portion of the capital of certain of the Adviser’s clients will be held as buffers in cash, money market instruments, money market mutual funds, government-issued fixed-income securities, and other cash equivalents. There are no limits on how large or small such buffers may be, and the size of such buffers is expected to change (possibly materially) from time to time. Additionally, there is no requirement to maintain such buffers. Such buffers may be used for any purpose, including as a “liquidity cushion” against margin and other capital requirements. However, there can be no assurance that any such buffers would be sufficient in any instance for their intended purposes.

In general, and all else being equal, the existence of cash and cash-equivalent buffers would be expected to reduce the magnitude of returns (whether positive or negative), and thus the volatility of those returns, experienced by a client relative to the returns that would have been experienced by such client in the absence of such buffers. However, this reduction in the magnitude and volatility of returns may not occur to the extent that such buffers are maintained in connection with an increase in the leverage employed by such client.

Although cash and cash-equivalent buffers are expected to be maintained in connection with derivative positions or leverage facilities that may contribute substantially to the returns (whether positive or negative) of a client, cash holdings and investments in cash equivalents are themselves generally expected to yield low or no returns, and any such returns themselves may not exceed the fees and expenses borne by such client. On the other hand, it is expected that certain clients will hold higher-yielding cash equivalents from time to time, whether on a temporary or long-term basis. Such cash equivalents

generally are subject to greater risks than lower-yielding cash equivalents, and could result in material losses for the client.

Non-Financial Considerations

Subject to the terms of the applicable Governing Document, the Adviser may take into account various non-financial considerations (such as environmental, social, political, ethical, corporate governance, and other considerations) in both the formulation and execution of investment decisions. For example, the Adviser may screen potential Investments to exclude securities of companies engaged in certain businesses or business practices, may seek to avoid investing in companies or assets affiliated or associated with certain governmental or non-governmental entities or geographic areas, may exercise proxy voting authority in a manner (or take other actions) designed to promote particular non-financial goals, may take such considerations into account when deciding among potential Investments or when deciding to divest from existing Investments, and/or may affirmatively seek to promote certain non-financial goals in their selection of Investments for a client. In weighing any such non-financial considerations, the Adviser is expected to take into account its own interests as well as the interests of its affiliates, including in the event that the Adviser believes that such considerations may implicate reputational and other similar concerns.

When utilized, such non-financial considerations ultimately may affect the outcome of the Adviser's formulation and execution of investment decisions and may cause the Adviser to make or dispose of Investments, or to forgo investment opportunities, in a manner that it would not have done had it taken into account only financial, economic, operational, and/or legal considerations. Such investment decisions may in turn affect the performance of a client's portfolio and cause it to experience lower returns than would have been the case had such non-financial considerations not been taken into account. Clients and underlying investors of Fund clients generally will not be notified of the extent, if any, to which such non-financial considerations are taken into account or the manner in which they affect the formulation and execution of investment decisions.

Position Limits, Trading Restrictions, and Reporting Requirements

Certain U.S. and non-U.S. governments, regulators, and self-regulatory bodies have imposed (and may impose) limits, triggers, and/or other thresholds with respect to positions in certain types of securities, futures contracts, and other assets that the Adviser expects to recommend for certain of its clients. Certain positions owned, held, or controlled by related persons (such as the Adviser, its affiliates, or one or more of their clients) are expected to be aggregated for purposes of determining whether such thresholds have been reached or exceeded. With respect to positions managed by such persons, the Adviser or its affiliates may (a) limit trading in such positions in order to avoid reaching such thresholds or (b) if such thresholds are exceeded, (i) dispose of positions to the extent necessary to fall below those thresholds, (ii) be limited in purchasing or selling such positions for a certain period of time, or (iii) be subject to disclosure obligations, filings, fines, limits on short-term trading profits, or other consequences; in each case which could have a material adverse effect on the Adviser's clients. In certain cases in which a particular client's positions are required to be aggregated with positions held by other clients of the Adviser (or its affiliates), such other clients will utilize the full amount of available position limits for their own benefit, and, as a result, the original client will be required to limit certain types of Investments or

liquidate certain of its positions. When multiple entities are affected by such limits, triggers, and/or other thresholds, the Adviser or its affiliates may determine to allow the consequences to fall disproportionately on certain entities, which could have a material adverse effect on one or more of the Adviser's clients.

Existing and prospective clients and their underlying investors should be aware that the CFTC has re-proposed rules that would impose a position limits regime for futures, options on futures contracts, and swaps with respect to certain commodity futures contracts, along with futures, options on futures contracts, and swaps that are economically equivalent to such contracts. Such rules, if adopted, and any additional rules or rule amendments adopted by the CFTC in the future, may hinder the ability to trade such contracts and could have a material adverse effect on one or more of the Adviser's clients.

The CFTC has also adopted rules that apply aggregation criteria with respect to position limits that are more restrictive in some respects than the previous rules. Various exchanges have adopted similar rules. The application of these aggregation rules, depending on the particular facts and circumstances involved, may require a person to aggregate certain of the Adviser's clients' commodity interest positions with such person's own positions in such commodity interests (or in some cases with positions in such commodity interests held in other accounts or pools with substantially identical trading strategies). In the event that a person were to be subject to these aggregation requirements with respect to its investment with the Adviser, it is not expected that the Adviser would make any change to its management of the applicable Investments or to its investment approach to permit such person to comply with such requirements, and the Adviser generally is not expected to provide information to such person about any of its clients' portfolio's particular positions, which would undermine such person's ability to comply with such requirements.

The Adviser is expected to engage in activities, or cause a client to engage in transactions or activities that, as a result of ownership of a security or other instrument by such client, another client, or for other reasons, would require filings with a governmental agency, public disclosure, and/or compliance with other regulatory requirements, such as beneficial ownership reporting, mandatory takeover offers, or certain restrictions on trading or on other client or Adviser activities. In addition, the Adviser may be restricted (by law or by its internal policies) in its ability to trade a particular Investment or may determine to limit or prohibit the participation of the client in a particular Investment or to recommend that the client to liquidate a particular Investment at an inopportune time. Compliance with filing and other requirements (including additional reporting requirements imposed in the future on the Adviser and/or its clients) may result in additional costs to a client and/or may delay its ability to trade, or to respond in a timely manner to changes in the markets with respect to, the applicable security or other instrument. The regulatory regimes outlined above may change over time, and any such changes may materially adversely affect one or more clients.

Publicly Available Information; Disclosures to Clients and Underlying Investors

Certain information regarding clients of the Adviser and/or their Investments is likely to be required to be made publicly available, which could have a material adverse effect on the value of, or the Adviser's plans with respect to, such Investments. Further, changes in law or regulation could increase the amount and frequency of required disclosures applicable to the Adviser and/or its clients. In addition, the Adviser may have clients that may be (or whose underlying owners may be) required under applicable law

(including freedom of information laws) to make publicly available certain information provided by the Adviser to such client. Moreover, such clients or underlying owners, other persons with access to information regarding a client and/or its investments or investment strategy (as applicable), and their respective employees, representatives, and agents, whether or not subject to freedom of information laws or similar disclosure requirements, could disclose such information, including in violation of their confidentiality obligations to the Adviser or the client.

Because various aspects of the Adviser's investment strategies are based upon quantitative trading methods or other proprietary information, any of the foregoing disclosures of information would increase the already material risk that other market participants will seek to use such information to their advantage (such as by reverse engineering the Adviser's investment strategies, by seeking to adversely affect the prices of the Investments recommended by the Adviser to its clients, by "frontrunning" a client's Investments, by causing a client to prematurely liquidate Investments, or by other actions), which could have a material adverse effect on one or more clients.

The risks described above will be exacerbated for clients deploying a given investment strategy to the extent that the Adviser or a related person deploys an identical or similar strategy in one or more separately managed account(s) for individual clients (which the Adviser and/or its related parties currently do with respect to certain strategies, and which such parties may do at any time with respect to any strategy), as a separately managed account client generally would have complete information about the positions and trading in such account. Moreover, any decision by the Adviser to provide a client's underlying investors with detailed information regarding such client's Investments would further exacerbate such risks.

Competition; Common Investor Risk

Changing, evolving, and maturing markets, as well as an increase in the number of market participants employing strategies similar to or otherwise in competition with the strategies employed by the Adviser, may make it significantly more difficult to identify and/or participate in profitable investment opportunities. Certain of these market participants are expected to possess competitive advantages over the Adviser or any of its clients, which may include without limitation superior technology; greater expertise, experience, or resources; superior access to investment opportunities or information; lower cost of capital; fewer regulatory constraints; and/or higher risk tolerances. There can be no assurance that any effort by the Adviser to minimize any competitive disadvantages will be successful.

The Adviser and its clients are expected to face other competitive challenges, whether due to regulation, limited liquidity, crowded markets, increased competition for personnel, or other similar or dissimilar factors. Competition and its challenges may have a material adverse effect on the Adviser and/or its clients.

In addition, a substantial number of other market participants deploy quantitative tools and investment strategies that overlap to varying degrees with the Quantitative Tools and/or the investment strategies that the Adviser deploys on behalf of certain clients. The activities of such other market participants could have a material adverse effect on such clients. For example, market events such as the "flash crash" of May 6, 2010 illustrate how the behavior of one or a small number of market participants can cause dramatic movements in the prices of individual securities and/or the market as a whole. The systematic

nature of the investment strategy deployed by the Adviser on behalf of clients and the resulting trading activity is expected to make clients' portfolios particularly susceptible to such movements, which could have unforeseen effects on one or more components of such investment strategy and/or on the interactions among such components. Further, to the extent that such overlapping quantitative tools and investment strategies react in similar ways to economic or other market events, it will be more difficult or expensive to purchase or dispose of particular Investments than it would be otherwise. Similarly, events such as the "quant crisis" of 2007 demonstrate the ways in which liquidations of overlapping positions may create a negative feedback loop (exacerbated by leverage) that results in progressively increasing losses to such client, rapid deterioration in the liquidity of the affected positions, and unexpected correlations among various Investments held by such client's portfolio. The common investor risks outlined in this paragraph are particularly acute with respect to forecasts or models that relate to well-known phenomena (for example, but without limitation, phenomena that have been widely covered in publicly available academic or competitor research).

Third-Party Litigation; Regulatory Actions

The activities of the Adviser and its clients subject them to the risk of becoming involved in claims or assertions of liability by third parties, whether in connection with one or more of the Investments, the operation of a Fund, and/or the operations of the Adviser or its related persons. The risk of such claims may be heightened in the event that a client or a particular Investment sustains losses or in circumstances in which the Adviser exercises management and/or other control of, or significant influence over, a particular Investment.

Moreover, the activities of the Adviser and its related persons are subject to various legal and regulatory regimes around the world. The scope and complexity of the regulatory environment in which the Adviser and such other persons operate increases the risk of regulatory investigations and enforcement actions involving the Adviser, its affiliates, and/or its clients. Such actions may arise out of routine or targeted examinations, be prompted by particular events or allegations, including events in which the Adviser has no involvement, or be brought for other reasons.

In the event that any related person of the Adviser is involved in a legal dispute or a regulatory investigation or enforcement action, whether or not related to the Adviser or its clients, various related persons of the Adviser may incur substantial costs, including potential judgments or settlements as well as the costs of legal counsel and other professional experts, in investigating relevant facts, contesting allegations, and pursuing defenses. Potential losses from a legal dispute or potential regulatory investigation could exceed, possibly materially, the capital invested in the activities giving rise to such dispute or investigation. Moreover, various related persons of the Adviser may devote a substantial amount of their time and attention to such legal or regulatory matter, which may reduce their effectiveness in managing client assets. The prospective costs associated with legal and regulatory matters may provide an incentive for the Adviser to incur significant costs to settle a particular matter, even if the Adviser believes that the claims, assertions, investigations, or actions against it are unfounded and/or that its defenses are meritorious. Conversely, the Adviser may elect not to settle any matter, even if contesting such matter may result in significant cost and risk of an adverse outcome that may be worse than a proposed settlement. The Adviser generally will have complete discretion in resolving any claims,

assertions, investigations, and actions against it or an affiliate, including with respect to the negotiation and acceptance of any settlement.

Under the applicable Governing Documents, the Adviser and/or its related persons may be entitled to indemnification by the client in connection with certain of the matters described in this section.

Accordingly, the fees and costs related to such matters, including amounts paid pursuant to settlements or judgments, would be borne by such client (and thus the underlying investors of such client, if applicable).

In addition, an adverse decision in, or a settlement of, a legal or regulatory matter could impose substantive limitations on the activities of the Adviser, its affiliates and/or its clients, including limitations on such persons' ability to deploy a particular investment strategy, invest in particular markets or types of Investments, or raise capital in certain jurisdictions or from certain types of investors. Moreover, the public disclosure of a legal or regulatory matter involving any related person of the Adviser, whether or not such person has any involvement with the particular investment and whether or not an adverse decision or settlement is reached, may have a material adverse effect on the Adviser, its affiliates, and/or its clients. Such a disclosure could cause reputational damage to the Adviser or its affiliates, which in turn may prompt investor withdrawals, limit the Adviser's access to investment, financing, and/or other opportunities, and/or increase the cost or difficulty of attracting and retaining employees. Further, public disclosures concerning a legal or regulatory matter may include competitively sensitive information, the disclosure of which could have a material adverse effect on the Adviser and its Investments.

Market Manipulation

Many markets have been affected by alleged or actual price manipulation, insider trading, and other forms of market abuse engaged in by certain market participants, notwithstanding the high degree of regulation that may be imposed on them. Aside from possible outright fraud, manipulation, and direct abuse, prices in certain markets may be subject to improper influence as a result of the price setting process or other reasons. Consequently, market participants may have the ability to improperly influence such prices, and there can be no assurance that the Adviser could predict, detect, or act to avoid such improper influence.

Any fraud, price manipulation, market abuse, or improper influence in the future could have a material adverse effect on a client. Moreover, there can be no assurance that any redress would be available to, or would be practical for, a client to pursue with respect to any particular fraud, price manipulation, market abuse, or improper influence.

Force Majeure Events

Force majeure events, such as (but without any implied limitation) terrorist attacks, acts of war, insurrections, epidemics or pandemics, natural disasters, or extreme weather conditions, typically cannot be predicted. The possibility or occurrence of such events could (a) materially adversely affect the operations of the Adviser and/or the markets in which a client directly or indirectly participates, (b) result in increased regulation of markets in which a client directly or indirectly participates, and (c) have a material adverse effect on a client or any of its Investments.

Changes in Law; Governmental Intervention

Changes in tax, securities, reorganization, lender liability, and other laws, regulations, or policies, as well as changes in accounting standards, changes to exchange and self-regulatory organization rules, and other factors (any of which changes could have a retroactive effect), may decrease the number of investment opportunities for the Adviser's clients (or eliminate such opportunities altogether), may decrease returns associated with certain Investments or certain elements of the Adviser's investment strategies, or may otherwise materially adversely affect the interests of the Adviser's clients. For example, the regulatory and tax environment for derivative instruments is evolving, and changes in the regulation or taxation of derivative instruments may adversely affect the value of derivative instruments held in client portfolios and the Adviser's ability to pursue investment strategies on behalf of its clients. Similarly, because elements of the Adviser's systematic trading strategies are expected to include executing a significant number of trades and/or orders, the introduction of a transaction or similar tax in one or more jurisdictions or the introduction of order-to-trade ratio limits, fees, minimum order resting periods, or new registration or market-making requirements related to such ratio limits could have a material adverse effect on the applicable client. A number of regulators have adopted or proposed certain rules, and may engage in additional rulemaking, on market structure that could create barriers to certain types of trading and forms of execution and could affect the use of "dark pools," "sponsored access," high frequency trading, and algorithmic trading strategies. Similarly, certain regulators have adopted, and other regulators have proposed or considered, regulations requiring particular record-keeping related to automated trading strategies, the adoption of certain policies or procedures related to the creation, modification, and implementation of computer code controlling such strategies, and/or disclosure of such code to regulators. The adoption of such regulations could increase the cost and decrease the expected returns of such trading strategies, limit the flexibility of the Adviser to deploy or modify such trading strategies, and/or result in the disclosure of confidential information about such trading strategies that could allow competitors to reverse engineer or mimic such strategies and thereby harm the returns of such strategies. More generally, regulators appear to be applying heightened scrutiny to sophisticated trading technology and execution methods, which may be in part a response to extreme volatility events in the equities and futures markets around the world.

In addition to changes in law and regulation applicable to the Investments and markets in which clients invest, the regulatory environment for leveraged investors and private investment funds is also evolving. The ability of the Adviser's clients to pursue their respective investment objectives may be adversely affected by additional regulatory requirements or changes to regulatory requirements applicable to such clients or the Adviser or its related persons, such as requirements that may be imposed due to other activities of the Adviser or its related persons or as a result of the investment in a particular Fund by certain investors or types of investors (such as investors subject to the Employee Retirement Income Security Act of 1974, as amended, natural person investors, and/or investors based in certain jurisdictions). Moreover, the Adviser and its clients and/or service providers or agents of any of the foregoing may from time to time be required or may determine, each in its sole discretion, that it is advisable to disclose certain information, including Investments held by a client and the names and level of beneficial ownership of such client, to regulatory authorities or to a counterparty of or service provider to the Adviser and/or its clients.

After the global financial crisis that began in 2008, several actions of the U.S. Congress, the SEC, and other U.S. and non-U.S. governmental entities sought to impose more oversight on private investment funds and their managers. For example, the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and related regulations generally have resulted, and may continue to result, in more onerous regulation of private investment funds and their managers than was the case in the past. It is possible that additional regulations adopted in the future could directly and/or indirectly affect the types of investment opportunities available to private investment funds.

Likewise, regulatory developments in Europe have altered, and are expected to continue to alter, the financial and investment landscape for private investment funds. For example, the European Union’s Alternative Investment Fund Managers Directive (the “AIFMD”), which came into effect in 2014, subjects managers of private investment funds to additional regulatory hurdles, and the establishment of the European Securities and Markets Authority, the European Banking Authority, and the European Insurance and Occupational Pensions Authority has created centralized bodies with the power to regulate the securities, banking, and insurance industries within the European Union. In addition, the European Market Infrastructure Regulation, which came into effect in 2012 and 2013, along with related regulations generally, have resulted, and are expected to continue to result, in more onerous regulation of private investment funds and their managers than was the case in the past. The Markets in Financial Instruments Directive II and accompanying legislation at both the European Union and member-state level, which came into effect at the beginning of 2018, imposed a range of additional regulatory burdens on financial services firms and has resulted, and is expected to continue to result in, changes to financial market structure in the European Union. These developments have the potential to increase the costs of the Adviser’s activities in Europe, alter the manner in which the Adviser conducts investment activities, reduce the expected returns from (or even preclude) certain types of investment activities, and otherwise adversely affect the Adviser and/or its clients.

In addition, the decision made by referendum in the United Kingdom in 2016 to leave the European Union, the consequences of which continue to be the subject of negotiation, has led to volatility in the financial markets of the United Kingdom and, to a lesser extent, across Europe and may also lead to weakening in consumer, corporate, and financial confidence in such markets. The longer term economic, legal, regulatory, political, and social framework to be put in place between the United Kingdom and the European Union is unclear at this stage, and negotiations are likely to lead to ongoing political and economic uncertainty and periods of volatility in both the United Kingdom and in wider European markets for some time. This uncertainty and volatility could adversely affect the Adviser and/or its clients with respect to its investment activities in Europe. The decision made in the British referendum may lead to a call for similar referendums in other European jurisdictions which may cause increased economic volatility in the European and global markets. Any such decisions to leave the European Union may affect the laws and regulations applicable to private investment funds and their managers.

It is impossible to predict the impact on the industry, the Adviser, and/or any of the Adviser’s clients of any new legislation or other requirements, or of the heightened interest generally in regulation and oversight of private investment funds and their managers or other market participants. Legislative and/or regulatory changes generally, and the focus on such funds, managers, and market participants in

particular, may prove disruptive to the industry and/or to the Adviser and, consequently, could have a material adverse effect on the Adviser's clients.

Financial and economic events over the past several years have caused pervasive and fundamental disruptions in the global financial markets, leading to extensive governmental intervention, both temporary and permanent. Such intervention may, in isolation or together with other factors, cause such markets to exhibit higher volatility, less liquidity, greater correlation within such markets, and/or greater correlation (or increased negative correlation) of certain markets with other markets than would be the case in the absence of such intervention. Further, such intervention has, in certain cases, been implemented on an "emergency" basis, suddenly hindering or eliminating market participants' ability to implement certain investment strategies or to manage the risk of their outstanding positions. These interventions have at times been unclear in scope and application, resulting in confusion and uncertainty that in turn have been materially detrimental to the efficient functioning of the markets as well as of previously successful investment strategies. The apparent inconsistency that characterized such governmental actions caused severe losses for a number of market participants and contributed to uncertainty in and resulting illiquidity of the markets. Similar dynamics and effects may occur in the future, which could have a material adverse effect on the Adviser's investment strategies.

It is impossible to predict what additional interim or permanent government restrictions may be imposed on financial markets and/or the effect of such restrictions on the Adviser's investment strategies. However, it is possible there will be significantly increased regulation of the financial markets. Such increased regulation could have a material adverse effect on the Adviser's clients.

Additional and/or Different Strategies, Companies, Asset Classes, Regions, and/or Markets

Subject to the terms of the applicable Governing Document, the Adviser may invest certain clients' assets in additional strategies, companies, asset classes, regions, and/or markets not outlined in this brochure. Such investment decisions will be based on one or more factors that the Adviser may deem relevant, including liquidity constraints and the availability of opportunities that it deems attractive. The Adviser is permitted to invest certain clients' assets in strategies that have investment styles, investment returns, leverage, and associated risks that are different (possibly materially) from those outlined in this brochure. The Adviser may allocate a portion of the applicable client's assets directly or indirectly to strategies, companies, asset classes, regions, and/or markets with or in which the Adviser has limited or no familiarity or experience. Because such strategies, companies, asset classes, regions, and/or markets may, among other things, be more difficult to evaluate and/or monitor, they may expose clients to greater risk and lower returns than those with which the Adviser has more extensive experience. There can be no assurance that any decisions outlined in this paragraph will be successful or will not have a material adverse effect on a client.

Item 9: Disciplinary Information

In April 2014 and June 2014, DESCO LP submitted notifications of net short positions in the shares of a Swedish issuer to the Swedish Financial Supervisory Authority (the "SFSA") pursuant to the European Union short-selling regulation (the "Regulation") after the next-day notification deadline in the Regulation. In each case, the delay in the submission of the net short position notification was the result

of unintentional human error, and DESCO LP submitted the required notification promptly upon its own discovery of such error. In January 2015, the SFSA imposed penalty fees of approximately US \$1,150 (in the case of the April 2014 notification) and US \$10,500 (in the case of the June 2014 notification) on DESCO LP for failure to report within the time period prescribed by the Regulation. The fines became effective in April 2015 and were paid by DESCO LP in May 2015.

In November 2012 and October 2013, certain entities in the D. E. Shaw group advised by certain of DESCO LP's Relying Advisers unintentionally violated a position limit applicable to natural gas futures traded on the New York Mercantile Exchange ("NYMEX") and ICE Futures U.S., Inc. ("ICE"). In each case, the violation was discovered prior to the open of trading on the day after which it occurred, and corrective trades were placed soon thereafter to bring the applicable positions into compliance. With respect to each violation, DESCO LP submitted to NYMEX a settlement offer in which DESCO LP agreed to pay a fine of \$25,000 (in the case of the November 2012 violation) and \$75,000 (in the case of the October 2013 violation). NYMEX entered orders effective on May 1, 2014 accepting the settlement offers. ICE issued a warning letter to the D. E. Shaw group for the November 2012 violation. With respect to the October 2013 violation, DESCO LP entered into a settlement agreement with ICE, effective January 16, 2015, in which DESCO LP agreed to pay a fine of \$20,000 and to cease and desist from such position limit violations.

DESCO LP received a request for information from the SEC in June 2013 relating to compliance with Rule 105 of Regulation M under the Securities Exchange Act of 1934 (the "Exchange Act") and identified five inadvertent violations of Rule 105 from 2010 through 2012. DESCO LP submitted an Offer of Settlement to the SEC, in which DESCO LP consented to cease and desist from such violations and to the payment of \$667,492.37, including disgorgement of \$447,794.00, prejudgment interest of \$18,192.37, and a civil monetary penalty of \$201,506.00. The SEC entered an Order on September 16, 2013, accepting the Offer of Settlement.

In April 2010 and June 2010, certain entities in the D. E. Shaw group advised by DESCO LP unintentionally violated futures contract position limits set by the CFTC in connection with trading soybeans and corn, respectively, on the Chicago Board of Trade, a member of the CME Group. In each case, the violation was as of the close of trading on a single day, and in each case, the D. E. Shaw group discovered the violation and put on correcting trades on or before the next trading day and before receiving notification of the violations, so that its positions were below the applicable limits. DESCO LP submitted to the CFTC an Offer of Settlement, in which DESCO LP consented to cease and desist from such violations and to the payment of a civil monetary penalty of \$140,000. The CFTC entered an Order on February 22, 2012, accepting the Offer of Settlement. The CME Group issued warning letters to the D. E. Shaw group for each violation.

DESIM believes there are no other legal or disciplinary events that are material to a client's or prospective client's evaluation of its advisory business or the integrity of its management.

Item 10: Other Financial Industry Activities and Affiliations

Certain management persons of DESIM are registered representatives of D. E. Shaw Securities, L.L.C. (“Securities LLC”), which is a related person of DESIM and a broker-dealer registered under the Exchange Act and a member of the Financial Industry Regulatory Authority, Inc.

DESIM and certain of its related persons are currently registered as commodity pool operators (each, a “CPO”) pursuant to the Commodity Exchange Act (the “CEA”) and are members of the National Futures Association (the “NFA”). Certain other of DESIM’s related persons have been listed with the CFTC as commodity pools and will be operated as “exempt pools” in accordance with Commodity Futures Trading Commission Rule 4.7. DESIM is also registered as a commodity trading advisor with the CFTC. Certain management persons of DESIM are registered with the NFA as associated persons of DESIM and each of DESIM’s related persons that is registered as a CPO.

Related Persons

The Adviser is part of an international financial services firm. The Adviser acts as managing member and/or manager for certain of its related persons, and this activity may be considered to be separate from the provision of investment advice. For purposes of this brochure, the Adviser does not consider itself to be engaged in the business of its related persons.

DESIM provides investment advice to certain Funds in its capacity as their managing member or manager, and also acts as adviser to other clients.

Subject to applicable law, the Adviser may use for clients, or suggest or recommend to clients, placement agent services offered by the Adviser’s related person, Securities LLC. It is expected that Securities LLC will not be compensated by clients for such services.

The Adviser’s related person, DESCO LP, is registered with the SEC as an investment adviser under the Advisers Act, is registered as a CPO pursuant to the CEA, and is a member of the NFA. The Adviser licenses certain intellectual property from DESCO LP and utilizes certain assets and resources of DESCO LP or the Adviser’s other related persons (including without limitation certain employees of DESCO LP or such other related persons) in connection with its own investment advisory activities. All of the persons treated as the Adviser’s employees in this Form ADV are employees of DESCO LP or such other related persons; may share their time among the Adviser, DESCO LP, such other related persons, and/or affiliates of the foregoing; and receive compensation and other benefits from DESCO LP, such other related persons, and/or such affiliates. In addition, as agreed between the entities, the Adviser may reimburse DESCO LP for certain expenses and DESCO LP may reimburse the Adviser for certain expenses.

The Adviser’s related person, D. E. Shaw & Co. (London), LLP (“DESCO London”) has received permission from the U.K. Financial Conduct Authority under Part 4A of the Financial Services and Markets Act 2000, authorizing it to engage in certain regulated activities in the United Kingdom. Pursuant to that authorization, DESCO London provides investment management and other services to the Adviser that ultimately are for the benefit of certain of the Adviser’s advisory clients; the Adviser or DESCO LP (on behalf of the Adviser) compensates DESCO London for those services. DESCO London

may utilize certain of the Adviser's employees in connection with its own investment management activities. In addition, as agreed between the entities, the Adviser may reimburse DESCO London for certain expenses and DESCO London may reimburse the Adviser for certain expenses. Julius Gaudio and Chris Zaback are Management Committee members of DESCO London. Mr. Gaudio is a Managing Director of DESCO LP and a member of that entity's Executive Committee. Mr. Gaudio, who joined DESCO LP in 1993, received his A.B. from Harvard University. Mr. Zaback joined DESCO LP in 2008 and is a Managing Director of DESCO LP. Mr. Zaback graduated from the University of Notre Dame with a degree in accounting and received his M.B.A. with honors from Columbia University's Graduate School of Business.

The Adviser's related person, D. E. Shaw & Co. (Asia Pacific) Limited ("DESCO AP") is licensed with the Securities & Futures Commission in Hong Kong to engage in certain regulated activities, pursuant to which DESCO AP provides asset management and other services to the Adviser that ultimately are for the benefit of certain of the Adviser's advisory clients; the Adviser or DESCO LP (on behalf of the Adviser) compensates DESCO AP for those services. DESCO AP is also registered as a foreign institutional investor with the Securities and Exchange Board of India. DESCO AP may utilize certain of the Adviser's employees in connection with its regulated activities. In addition, as agreed between the entities, the Adviser may reimburse DESCO AP for certain expenses and DESCO AP may reimburse the Adviser for certain expenses. The directors of DESCO AP are Julius Gaudio, Chris Zaback, and Kevin Patric. Mr. Patric, who joined the D. E. Shaw group in 2003, received his B.S. from the University of Pennsylvania. Please refer to the preceding paragraph for the education and business backgrounds of Mr. Gaudio and Mr. Zaback.

Certain Actual and Potential Conflicts of Interest

The Adviser, its related persons, and its and their directors, partners, officers, and employees have actual and potential conflicts of interest with respect to the Adviser's clients. For example, such persons have various advisory, transactional, financial, and other interests in securities and/or other financial instruments that may be purchased or sold by the Adviser's clients (or clients of related persons), including clients that themselves may be related persons. The Adviser and/or its related persons have established a variety of restrictions, procedures, and disclosures designed to address potential conflicts between the interests of its clients and the interests of itself and/or its related persons to ensure that its actions are consistent with the best interests of its clients. When conflicts of interest arise, they are addressed in compliance with all legal requirements and such restrictions, procedures, and disclosures, as applicable. Restrictions and procedures generally are established by heads of the applicable strategies, senior management, and/or compliance personnel.

Although this section outlines certain conflicts of interest, it does not purport to identify or describe all such conflicts; for Funds, the applicable Governing Document contains more extensive disclosure regarding the conflicts of interests that arise in connection with the operation of such Fund.

Conflicts Arising from Management and Operations of Clients

Various conflicts of interest arise from the management and operations of the Adviser's clients. For example, the Adviser and/or its related persons have incentives to allocate expenses to a client to the extent that doing so would reduce the amount of expenses that would be borne by the Adviser or such

related persons (either directly or indirectly, for example through their ownership of other Funds). Such conflicts arise in a variety of scenarios, including in determining which expenses relate to the general operations of a client and/or to the acquisition, holding, monitoring, or disposition of actual or potential Investments, in which case they will be deemed to be operating costs and will be borne by the relevant client, and which expenses are solely costs of the Adviser or its related persons that should not be borne by the relevant client.

Such conflicts are also expected to arise when determining which portions of operating costs are allocable to clients of the Adviser or its related persons that have different expense reimbursement provisions according to their respective Governing Documents. For example, because the Adviser and its related persons are typically not reimbursed for most overhead expenses related to the operation or management of the Funds, such parties have an incentive to reduce their investment in research and development and/or to limit the deployment of human or other resources in connection with the Funds.

As an additional example, for clients from which the Adviser or its related persons receive a Performance Charge, the existence of such Performance Charge, along with the absence of provisions requiring such Adviser or related persons to absorb an equivalent percentage of any cumulative losses, or any underperformance relative to an index, as applicable (other than as specified in the relevant provisions outlined in the applicable Governing Documents), creates an incentive for such Adviser or related persons to make decisions and/or investments on behalf of a client that are riskier or more speculative than those that would be made in the absence of a Performance Charge.

Another example of such conflicting incentives relates to the authority of the Adviser and its related persons to value each client's portfolio and to make determinations about a client's Management Fee and Performance Charge. Such valuations and such determinations affect the amount of the Management Fee and Performance Charge payable or allocable by a client to the Adviser and its related persons.

To the extent permitted by a client's Governing Documents, the Adviser and/or its applicable related persons are authorized to determine the financial institutions and/or counterparties, if any, to be used by such client. Such financial institutions and counterparties (or their affiliates or other related persons) are expected to have other relationships with the Adviser and/or one or more of its related persons. Examples of such relationships may include without limitation (a) investments by such financial institutions or counterparties or their clients in certain Funds and/or other affiliated entities; (b) investments by the Adviser's related persons in such financial institutions, counterparties, or their affiliates; and (c) placement agent, capital introduction, or other service or advisory relationships. Any such relationships would give the Adviser and/or its related persons an incentive to select such financial institutions and/or counterparties for the transactions of the applicable client even when such financial institutions or counterparties offer less competitive terms (such as with respect to fees) for their services.

Conflicts Arising from Other Activities

In addition to conflicts of interest that arise with respect to the management and operation of the Adviser's clients, actual and potential conflicts of interest of the Adviser and its related persons also arise from, among other things, other activities that are unrelated (or only partly related) to the business and affairs of any particular client (e.g., but without implied limitation, advising or managing other clients) ("Other Activities"). Such Other Activities partially or exclusively benefit the Adviser and its related

persons, and the Adviser or one or more related persons will make all decisions with respect to any actual and potential conflicts of interest with respect to the Adviser's clients and/or Adviser's Fund clients' underlying investors, including conflicts involving the management and operations of clients or any Other Activity. Because the Adviser and its related persons may in the future expand the number, variety, and/or focus of their Other Activities, conflicts of interest (whether or not outlined in this brochure) are expected to become more frequent and/or pronounced over time.

The Adviser and its related persons currently engage in a range of Other Activities, and there are no limits on the nature or the extent of Other Activities in which they may engage in the future. Such Other Activities in many cases produce or will produce greater economic or other benefits for the Adviser and/or its related persons than certain clients produce for such parties, and thus create or will create incentives for the Adviser and its related persons to favor Other Activities over the applicable clients in various ways.

Examples of Other Activities that are currently pursued by the Adviser and/or its related persons include without limitation: (a) providing investment advice and/or operational or other services to various clients (including Significant Management Capital Funds and/or other DESCO Favorable Funds) or other persons generally in exchange for Management Fees; (b) serving as general partner or manager of, or holding a limited partner, shareholder, member, or other ownership interest in, other investment vehicles (including Significant Management Capital Funds and/or other DESCO Favorable Funds) or businesses generally in exchange for Performance Charges or other charges; (c) engaging in other investment, trading, lending, or financial businesses and activities unrelated to its clients; and (d) engaging in technology-related or other businesses and activities.

Other Activities generally will benefit persons other than any particular client or a Fund client's underlying investors. Such persons may include without limitation other clients and their investors, the Adviser itself or its related persons (such as when DESCO LP pursues an investment opportunity for its own benefit and not for the benefit of a client), and/or the person performing the activity (such as when employees of the Adviser conduct trading for their own accounts). In addition, DESCO LP or a related person is expected to participate in certain investments alongside a client even if such client possesses sufficient desire and capital to make such investments entirely on its own. For example, certain investment opportunities are expected to be capacity constrained (whether for business, regulatory, or other reasons). To the extent that such opportunities are pursued by more than one of the Adviser's clients, such opportunities are expected to be allocated among such clients (certain of which may include Significant Management Capital Funds and/or other DESCO Favorable Funds) by the Adviser and/or its related persons. No client of the Adviser, and no investor in any Adviser's Fund client, shall have any right to receive notice of, participate in, or otherwise receive the benefit of any Other Activity.

Another example of an Other Activity pursued by a related person is Arcesium, which is a joint venture between a subsidiary of DESCO LP and certain third-party investors that hold minority stakes in Arcesium. These third-party investors are also affiliated with certain investors in certain Funds that are clients of the Adviser and/or its related persons. As co-owners of Arcesium, such subsidiary of DESCO LP and such third-party investors will share in income attributable to fees or other consideration paid to Arcesium. This creates an incentive to retain Arcesium to provide post-trade technology and services, even if Arcesium offers less competitive terms for such services and/or technology. Further, fees and/or

other consideration paid to Arcesium by other clients are expected to be greater (whether on an absolute or relative basis) than fees and/or other consideration paid by applicable clients of the Adviser.

The interests of the Adviser and its related persons when engaging in Other Activities diverge from the interests of the Adviser's clients and/or Adviser's Fund clients' investors. For example, the Adviser or its related persons (a) hold investments in DESCO Favorable Funds that are larger (whether in percentage or absolute dollar terms) than any investments they hold in any particular other client and/or (b) provide services to DESCO Favorable Funds that pay Management Fees, Performance Charges, or other amounts that are greater (whether in percentage or absolute dollar terms) than the corresponding amounts paid by another client. As a result, the Adviser and its related persons have incentives to deploy more profitable investment strategies on behalf of, or to allocate more profitable investment opportunities to, such DESCO Favorable Funds instead of other clients, and in fact have done so on behalf of certain DESCO Favorable Funds and expect to continue to do so in the future. Any such deployment or allocation of such investment strategies or opportunities to a DESCO Favorable Fund decreases the number and quality of investment strategies and opportunities available to other clients. Further, the Adviser and its related persons have incentives to increase the capital each invests in Significant Management Capital Funds, even if such increase would exacerbate the conflicts of interest described in this paragraph.

More generally, the divergent interests of DESCO Favorable Funds, on the one hand, and other clients and/or their underlying investors, on the other hand, create incentives for the Adviser and certain of its related persons to devote more time and resources to such DESCO Favorable Funds rather than to other clients.

Currently, the Adviser and its related persons devote only a portion of their working time and effort to the business and affairs of any particular client of the Adviser, and it is expected that they will devote a substantial (and probably a greater) amount of their working time and effort to Other Activities (including the business and affairs of DESCO Favorable Funds). Moreover, any information learned, or expertise developed, by the Adviser or a related person that performs work on behalf of a client is expected also to be used on behalf of one or more Other Activities. In addition, Other Activities expose the Adviser and/or its related persons to risks independent of those associated with any particular client, and such risks could materially adversely affect the Adviser and/or such related persons and their ability to perform work that benefits the Adviser's clients.

In addition, a client of the Adviser may, and in certain cases currently does, compete with Other Activities for (a) the purchase, sale, trading, structuring, restructuring, and otherwise acquiring or disposing of Investments and investment opportunities; (b) the deployment of new investment strategies; and/or (c) the use of investment strategies or tools deployed or used on behalf of more than one client. Certain Other Activities also make use of certain intellectual property of the Adviser or certain of its related persons that is also used for clients of the Adviser, and it is expected that such shared use will continue in the future. No assurances can be given that the application of the intellectual property of the Adviser and certain of its related persons, both to the activities of a client as well as the activities of others, would not materially adversely affect the Adviser's clients. The use or non-use of any intellectual property by the Adviser with respect to its clients or with respect to any other person shall be determined by the Adviser.

Other Activities create additional incentives for the Advisers and/or its related persons to take actions with respect to a client that they might not otherwise take if they were to consider solely the interests of the client. For example, the Adviser may take into account various non-financial considerations in both the formulation and execution of investment decisions, including environmental, social, political, ethical, corporate governance, and other considerations. The Adviser may conclude that certain actual or potential Investments implicate such non-financial considerations and could therefore result in adverse publicity or regulatory scrutiny and/or undermine the ability of the Adviser and/or its related persons to attract and retain key employees, raise additional capital from investors, and/or maintain relationships with commercial counterparties. As a result, the Adviser may make or dispose of Investments, or forgo investment opportunities, in a manner that it would not have done had it taken into account only financial, economic, operational, and/or legal considerations applicable to its clients.

The Adviser and its related persons have policies to address certain of the conflicts outlined in this Item 10. However, any such policies will not necessarily eliminate the effects of such conflicts of interest. Moreover, in certain instances the application of such policies is likely to result in an economic benefit to certain clients (including DESCO Favorable Funds) or to the Adviser's related persons and not to other clients, and/or an economic harm to one or more clients.

Deployment and Modification of Investment Strategies and Tools; Exclusive Access; Shared Strategies; Preferential Access

DESCO LP and certain of its related persons have developed, and expect to continue to develop, various investment strategies. Such investment strategies may be distinguished by, among other things, asset class, instrument type, industry sector, geography, data inputs, time horizon, and/or investment approach. Each investment strategy may in turn comprise multiple elements, each of which may reflect a distinct investment thesis that attempts to identify trading opportunities based on various quantitative and/or qualitative factors. The risks described in this brochure with respect to investment strategies generally apply to individual elements of such investment strategies. The trading opportunities identified by each investment strategy are evaluated by the Adviser or its applicable related person on behalf of each client that participates in such investment strategy. Moreover, DESCO LP and certain of its related persons have developed, and expect to continue to develop, portfolio optimization tools, price forecasting methods, risk management approaches, low latency trading approaches, transaction cost minimization techniques, and/or other tools (each, a "Portfolio Management Tool") to help execute trades and manage portfolios on behalf of relevant clients. As outlined in this Item 10, the Adviser and its related persons face conflicts in deciding how to allocate resources and opportunities among clients (including DESCO Favorable Funds).

Deployment and Modification of Investment Strategies and Tools; Exclusive Access

The Adviser and its related persons may deploy one or more investment strategies or Portfolio Management Tools (a) on behalf of solely one client (including a DESCO Favorable Fund), (b) on behalf of a number of clients (including DESCO Favorable Funds), or (c) on behalf of certain clients (including DESCO Favorable Funds) but not other clients. The Adviser and its related persons will determine which investment strategies and Portfolio Management Tools will be deployed on behalf of each client, including DESCO Favorable Funds (for example, whether to deploy such items on behalf of a particular client at all

and whether other clients will have preferential access to a Shared Strategy (as defined below) or shared Portfolio Management Tool relative to such client). Further, the Adviser and its related persons are authorized to (w) deploy a new investment strategy or Portfolio Management Tool, (x) cease to deploy any investment strategy or Portfolio Management Tool, (y) modify any investment strategy or Portfolio Management Tool, or (z) increase or decrease (in either relative or absolute terms) the capital or risk allocated to any investment strategy or Portfolio Management Tool, in each case with respect to any clients, including DESCO Favorable Funds. Such decisions may have a material adverse effect on the performance of any particular client and may instead benefit such other clients. In addition, in connection with any such decisions with respect to an investment strategy, a client may directly or indirectly engage in transactions with one or more such other clients. For the avoidance of doubt, neither the Adviser nor its related persons have any obligation to deploy any particular investment strategy or Portfolio Management Tool on behalf of any particular client, even if such deployment would be consistent with one or more of such client's investment objectives and even if such strategy is allocated to one or more other clients (including one or more DESCO Favorable Funds).

In fact, the Adviser and its related persons currently do not, and expect that in the future they will not, deploy on behalf of certain clients certain investment strategies, Portfolio Management Tools, and other opportunities deployed on behalf of various other clients. For example, one or more Significant Management Capital Funds have been given exclusive access to (a) certain investment strategies with shorter-duration time horizons, which may experience higher returns and/or higher Sharpe ratios (typically with higher operating costs and/or higher turnover) compared to longer-duration strategies, and (b) certain Portfolio Management Tools focused on low latency trading capabilities. As a result, it is expected that if such a Significant Management Capital Fund trades in the same or a similar instrument as a client that does not have access to such shorter-duration strategies, such Significant Management Capital Fund will from time to time buy or sell such instrument at a more favorable time than such other client buys or sells such instrument, which is likely to have a (possibly material) adverse effect on prices paid or received by the other client for such instrument. Therefore, it is possible that such other client would experience materially better returns were such investment strategies and Portfolio Management Tools available to be deployed by such other client.

Shared Strategies; Preferential Access

For purposes of this brochure, any investment strategy or strategy element that is deployed on behalf of more than one of the clients of the Adviser or its related persons is referred to as a "Shared Strategy," and each such client is referred to as a "Sharing Investor." In the case of certain Shared Strategies, certain Sharing Investors (including DESCO Favorable Funds) may be given preferential access, relative to other Sharing Investors, to such Shared Strategies (and resulting Investments). For example, if (a) preferential access has been granted to one or more Sharing Investors with respect to a Shared Strategy and (b) the Adviser or applicable related person determines there is insufficient capacity for all such Sharing Investors to participate in a particular trading opportunity to the full extent of each participant's desired exposure, then such opportunity would be offered to the relevant Sharing Investors in a specific order of priority, such that the client with the highest priority would have the ability to participate in such opportunity up to its desired exposure, while the client with the next highest priority would have the ability to participate in such trading opportunity only to the extent there was remaining capacity in such

opportunity. In the event a Sharing Investor (which may include a DESCO Favorable Fund) is given preferential access, relative to another Sharing Investor, to a Shared Strategy, then such other Sharing Investor may be unable to obtain its desired (or any) exposure to such opportunity. Further, any such preferential access may require such other Sharing Investor to reduce or eliminate its exposure to such Shared Strategy, including by selling its holdings of Investments related to such Shared Strategy.

The identity, number, and relative priority of Sharing Investors that participate in a Shared Strategy may vary materially over time. The amount (whether relative or absolute) of each Sharing Investor's capital invested using a particular Shared Strategy is expected to differ from the amount of capital invested by one or more Sharing Investors using such Shared Strategy, and it is also expected that one or more Sharing Investors will take a different directional position relative to another Sharing Investor in the same instrument at various points in time due to changes in a given trading opportunity, differences in each participant's desired exposure or existing portfolio, and/or determinations made by the Adviser or its applicable related persons. Thus, the returns experienced by one Sharing Investor in connection with a Shared Strategy are expected to differ (possibly materially) from those experienced by any other Sharing Investor. Further, the deployment of any Shared Strategy on behalf of multiple Sharing Investors is expected to cause any such Sharing Investor to acquire and/or liquidate certain Investments at less favorable prices, and is expected to reduce the amount of capital such Sharing Investor is able to invest profitably, in each case relative to what would be the case if such Sharing Investor did not participate in such Shared Strategy.

In addition, to the extent that the deployment of a Shared Strategy on behalf of Sharing Investors increases the effective capital base deployed in connection with, or the (actual or effective) average trade size associated with, such Shared Strategy, such activities can be expected to result in less favorable returns for a client than would be the case if such Shared Strategy were not deployed on behalf of such Sharing Investors or others.

Whether or not the Adviser deploys on behalf of a client an investment strategy deployed on behalf of another client, the Adviser may use some or all Portfolio Management Tools on behalf of more than one client (any shared Portfolio Management Tool, a "Shared Tool"). The use of Shared Tools exposes clients to substantially the same risks as the use of Shared Strategies, including the risks outlined above.

Decisions with respect to the investment strategy (including Shared Strategies) and Portfolio Management Tools (including Shared Tools) deployed on behalf of a client are subject to various determinations by the Adviser and/or its related persons. There can be no assurance that any such decision or determination will be regarded as fair and equitable by a client or its underlying investors, and any such decision or determination may have a material adverse effect on a client.

The Adviser has no obligation to recommend for purchase or sale by its clients any securities that the Adviser, its related persons, and/or personnel of the foregoing may purchase for themselves or for other clients. In addition, the ability of the Adviser to effect and/or recommend transactions for certain or all clients may be restricted due to actual or perceived regulatory requirements in the United States or elsewhere, to the Adviser's or a related person's internal policies designed to comply with such requirements, to actual or perceived conflicts of interest, to operational issues, and/or to other issues. Regulatory or contractual limitations related to effecting transactions for certain of the Adviser's clients

may not apply to other clients, resulting in differences among the composition of and return from client portfolios. The Adviser reserves the right not to effect transactions for clients with or through its related persons.

Shared Positions; Conflicting Positions

To the extent permitted by the applicable Governing Documents, the Adviser and its related persons may give advice and take action with respect to any of its clients, including Significant Management Capital Funds and/or other DESCO Favorable Funds, or with respect to the Adviser's own investments, that may differ from the advice given, or may involve a different timing or nature of action taken, with respect to any one or all other clients that the Adviser or its related persons advise, and thus effect transactions for such clients at prices or rates that may be more or less favorable than for other clients. In addition, the Adviser, its related persons, and/or other clients (including Significant Management Capital Funds and/or other DESCO Favorable Funds) may hold the same (or the opposite) position in a given security, commodity, or other financial instrument as that held by a client at the same time, and at any given time one or more such parties are expected to hold such common (or opposing) investments or one or more closely related investments that have similar (or opposite) economic exposures as those held by a particular client. From time to time, the Adviser and/or its related persons will cause one or more clients to take actions that conflict with actions taken by other clients or that involve a different timing or nature of action taken than with respect to other clients. For example, it is expected that, from time to time, one client would (knowingly or unknowingly) buy or sell certain securities or instruments while another client is undertaking a different (including potentially opposite) strategy with respect to those securities or instruments. By way of another example, it is likely that, from time to time, a client will hold a long position in an issuer at the same time as a different client (potentially including a DESCO Favorable Fund) holds a short position in such issuer, invests in a competitor of such issuer, or takes other actions that may adversely affect such issuer (*e.g.*, making a litigation finance investment in a claim filed against such issuer). To the fullest extent permitted by law, the Adviser and its related persons are not required to seek to eliminate the possibility or effects of any such action. Accordingly, such an action may result in an economic benefit to one client and/or an economic harm to another client.

Any common (or opposing) positions described above may limit the ability of the Adviser to add to the position held on behalf of any particular client, to readily liquidate such a position, or to obtain a favorable price in the course of such addition or liquidation. In effecting transactions for the client, related person, and/or any other persons or entities, it will not always be possible or consistent with the investment objective of the client or of such other persons or entities to take or liquidate the same investment positions at the same time or at the same prices. The "market impact" associated with a liquidation by such other persons or entities may materially adversely affect a client's ability to liquidate its position; if a client's position is traded, the price at which such trade occurs; or if a client does not liquidate its position, the mark-to-market value of such position, in each case resulting in the conferral of an economic benefit on such other related party at the expense of the client.

The Adviser, its related persons, and/or their clients may trade with each other from time to time upon the advice of the Adviser and, as applicable, related persons. The Adviser generally does not itself trade securities on a principal basis with clients. However, certain clients and related persons of the Adviser, including Significant Management Capital Funds, are deemed principals (and in the future other clients

may be deemed principals), based on SEC staff guidance, due to the investment in each such client or related person by the Adviser and controlling persons exceeding 25% of that client's or related person's assets. To the extent that the Adviser and/or its related persons (including Funds) engage (or are deemed to engage) in principal securities transactions, any such transactions will comply with applicable law. The Adviser and/or its related persons may have interests in such transactions that are adverse to a particular client.

To the extent permitted by applicable law and the applicable Governing Documents, the Adviser and/or its related persons may effect "cross transactions" between the Adviser's and/or its related persons' client accounts in which one client will purchase securities held by another client. The Adviser and/or its related persons will direct clients to enter into such transactions only when the transactions are consistent with the best interests of both clients and at a price that the Adviser and/or its related persons believe constitutes best execution for both clients. Neither the Adviser nor any related party receives any commission or commission equivalent in connection with these transactions.

Errors; Exculpation and Indemnification of the Adviser and its Related Persons

Trading, programming, and other errors have occurred in connection with the Adviser's operations and investment activities on behalf of various clients, and such errors are expected to occur with respect to any given client. Such errors may be caused, in whole or in part, by the Adviser or its related parties, by a client's counterparties, and/or by other persons, and may relate to any aspect of the Adviser's and/or a client's activities, including in the areas of research, analysis, coding, computation, trade execution, trade settlement and allocation, the exercise of shareholder rights, risk management, counterparty management, financial operations, accounting, valuation, tax, reporting, compliance, and information technology. Any such errors could result in material losses, regulatory scrutiny, reputational damage, and/or other material adverse effects on the Adviser, a client, or a client's Investments.

The applicable Governing Documents generally will set forth the terms by which the Adviser and its related persons are (or are not) exculpated and/or indemnified and held harmless. With respect to each Fund client, to the fullest extent permitted by law, and as set forth in the applicable Governing Documents, the Adviser and its related persons (a) shall be exculpated by such Fund client and its underlying investors, and shall be indemnified and held harmless by such Fund client, for certain conduct (including for any of the errors described in the preceding paragraph) and for any related losses, subject only to any exceptions set forth in the applicable Governing Documents, and (b) shall have no liability to a Fund client or its underlying investors for any consequential, exemplary, punitive, incidental, indirect, or special damages. Accordingly, each Fund client and its underlying investors should note that the Adviser and its related persons generally will not be liable for certain types of conduct, including for any of the errors described in the preceding paragraph, and any losses related to such errors generally will be borne by such Fund client and, indirectly, by its underlying investors. Similar provisions may appear in the Governing Documents of clients that are not Funds.

The Adviser and its related persons will make certain determinations with respect to the errors described in this section, including (x) the occurrence, nature, and extent of any such error, (y) the losses, if any, caused by such error, and (z) whether any applicable persons should be indemnified for any such losses. The Adviser and its related persons will have conflicts of interest in making such determinations, which

are expected to be made without notice to or the consent of any applicable client or the underlying investors of a Fund client.

Disclosures regarding conflicts of interest and their resolution generally will be contained in the applicable Governing Document, this brochure, and/or another document. Other documents, such as financial or periodic reports, furnished to clients or investors also may contain disclosure regarding conflicts of interest.

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

DESIM and its affiliated investment advisers have adopted a code of ethics (the "Code") that establishes the standard of business conduct that must be followed by, among others, all partners, directors, officers, and employees of the Adviser and these investment advisers (collectively, "Supervised Persons"). The Code incorporates the following general principles, which all Supervised Persons are expected to uphold: act in the best interests of clients; conduct activities and personal securities transactions in a manner consistent with the Code, which seeks to address certain conflicts of interest in this regard; avoid taking any inappropriate advantage of one's position at the Adviser; maintain confidentiality of information concerning the Adviser's securities recommendations and client securities holdings and transactions; and provide accurate disclosure in reports required by auditors, regulators, or government bodies.

The Adviser believes that these general principles not only help the Adviser fulfill its obligations undertaken as an investment adviser, but also protect the Adviser's reputation and instill in employees the Adviser's commitment to honesty, integrity, and professionalism.

The Code also provides guidelines for Supervised Persons regarding adherence to securities laws generally, transactions in personal accounts involving public and private securities and commodities, activities outside of the investment adviser's business, giving and receiving business-related gifts, and the maintenance and memorialization of certain family and/or close personal relationships. For example, the Code generally requires that all Supervised Persons obtain approval prior to effecting a securities or commodities transaction in a personal or related account over which the employee exercises control. In addition, the Code encourages all Supervised Persons to report Code violations and outlines potential sanctions for such violations. The Adviser's Chief Compliance Officer is responsible for the Code's administration, including without limitation the monitoring and review of personal securities and commodities transactions of Supervised Persons, and is available for any questions Supervised Persons have regarding the Code. The Adviser will provide a copy of the Code to any client or prospective client upon request and may elect to provide a copy of the Code to investors in the Funds.

Please see Item 10 for additional information regarding certain conflicts of interest arising from circumstances in which the Adviser recommends to clients, or buys or sells for client accounts, securities in which the Adviser or its related persons is invested (or is buying or selling) or otherwise has a financial interest.

Item 12: Brokerage Practices

Generally, DESIM is authorized by each client to determine the financial institution or counterparty to be used, if any, for each transaction executed on behalf of such client. In selecting such financial institutions and counterparties for transactions, DESIM seeks to obtain the best execution of transactions for its clients under the circumstances (consistent with what it believes to be the best overall interests of the client), but need not solicit competitive bids, and does not have an obligation to seek the lowest available commission cost. The price offered by a financial institution or counterparty, including commissions and commission equivalents, if any, and other transaction costs, is normally an important factor in this decision, but financial institution and counterparty selection also takes into account the overall quality of the execution services offered, including without limitation such factors as the following: execution capability; willingness and ability to commit capital; creditworthiness and financial stability; clearance and settlement capability; ability to maintain confidentiality; the provision of research and other services; and potential or perceived conflicts between clients of DESIM and its related persons. Accordingly, transactions will not always be executed at the best price or the lowest available commission. In addition, DESIM is not required to negotiate “execution only” commission rates; thus, the clients may be deemed to be paying for other services provided by the financial institution that are included in the commission rate, and DESIM may benefit to the extent it does not itself produce or pay for such services. Subject to its duties under the express terms of any applicable agreement and under applicable law, DESIM may determine eligibility of and/or direct transactions or commissions to certain broker-dealers, exchanges, or other financial institutions and counterparties (or their affiliates) that are direct or indirect owners of DESIM, are owned directly or indirectly by DESIM, or are otherwise affiliated with DESIM; have made (or whose affiliates have made or directed) investments in Funds advised by DESIM or a related party; or may be willing to furnish other services for the benefit of DESIM or a related party. In the latter case, such services will include only brokerage and research services that are deemed to fall within the safe harbor provided by Section 28(e) of the Exchange Act or any amendment or successor to such provision. Such services may include the provision of information on economic trends or conditions, political developments, industries, groups of securities, individual countries, and individual companies, as well as brokerage services or communication services related to the execution, clearing, and settlement of transactions. Research or other services obtained in this manner may be used in servicing any or all clients of DESIM and may be used in connection with advisory accounts other than those that pay commissions and commission equivalents to the financial institution relating to the research or other service arrangements. The receipt of such services from particular financial institutions or counterparties may cause the Adviser to have an incentive to select or recommend such financial institutions or counterparties rather than financial institutions or counterparties from which the Adviser’s clients would receive the most favorable execution. The appropriateness of brokerage commissions is evaluated by DESIM on an ongoing basis.

Certain clients are expected to need to maintain and use a number of brokerage accounts to facilitate the various trading strategies deployed by DESIM. Nevertheless, the clearing, settlement, and custody of client positions may be carried out by a limited number of counterparties and, depending on the Investment, may require negotiation on a transaction-by-transaction basis. This may create a concentration of exposure to the creditworthiness of the counterparties carrying out such clearing,

settlement, and custody. Any failure of any such counterparty could have, and has had in the past, a material adverse effect on clients.

When portfolio decisions are made contemporaneously for multiple clients, including Significant Management Capital Funds and/or other DESCO Favorable Funds, in the same instrument, the Adviser may, if consistent with market conditions, client characteristics, and applicable law, bunch or aggregate client orders (including orders for clients in which the Adviser, its related persons, and/or its personnel have beneficial interests) for execution. Such bunched or aggregated orders might facilitate execution and may reduce brokerage and other costs. DESIM, however, is not required to bunch or aggregate orders if (a) portfolio management decisions are not made contemporaneously, (b) DESIM determines that it would be consistent with its investment management duties or the interests of its clients not to do so, or (c) bunching or aggregating is not practical operationally or otherwise. Because of prevailing trading activity, it is frequently not possible to receive the same price or execution on the entire volume of positions purchased or sold in such bunched or aggregated orders. When this occurs, DESIM (in its sole and absolute discretion) may charge or credit clients participating in the bunched or aggregated order with the average price of the various prices received for that order, or alternatively, may charge or credit such clients with a price determined in good faith to be an appropriate price. Positions purchased or sold in a bunched transaction are allocated to the participating clients using methods determined by DESIM in its sole discretion (which methods may include *pro rata* by assets under management or by proportionate order size). DESIM may, however, increase or decrease the transaction amount allocated to each client if necessary to avoid holding odd lots or small numbers of positions for particular clients. If DESIM is unable to or does not fully execute a bunched transaction or DESIM determines that it would be impractical to allocate a small number of positions among all of the accounts initially intended to participate in the transaction, the Adviser may allocate such positions in a manner determined in good faith to be an appropriate allocation. Although it is anticipated that the bunching or aggregation of orders will benefit each client overall, aggregating orders may disadvantage certain clients, including without limitation by resulting in shared allocations of orders or worse execution prices for client orders. Alternatively, not aggregating orders may disadvantage certain clients, including without limitation by resulting in higher costs or worse execution prices for client orders.

A client that designates use of a particular broker-dealer or other financial institution, including a client that directs use of a broker-dealer or other financial institution in connection with payment for custodial services (whether or not recommended by the Adviser) should consider whether, under that designation, commission expenses, execution, clearance, and settlement capabilities, and whatever amount is regarded as allocable to custodian fees, if applicable, will be comparable to those otherwise obtainable. A client that directs use of a particular broker-dealer or other financial institution should understand that it may lose the possible advantage that non-designating advisory clients derive from aggregation of orders of several clients as a single transaction for the purchase and sale of a particular security (where applicable) and/or other benefits that might be available from broker-dealers or other financial institutions selected by DESIM or its related persons.

DESIM's related persons may also have independent authority to determine and direct the execution of DESIM's clients' portfolio transactions, within the objectives, risk and liquidity profiles, and policies (if

any) specified by each client or outlined in the applicable Governing Document and/or other written agreement with a client, subject to the same policies and restrictions outlined above and applicable law.

DESIM generally is retained by clients on a discretionary basis and is authorized to determine and direct the execution of portfolio transactions and to delegate such authority to related persons or others, within the objectives and policies (if any) outlined in the applicable Governing Document or another written agreement with a particular client.

DESIM attempts to correct any identified trade errors unless it determines that doing so would not be in the interest of the applicable client. Depending on the terms of the applicable Governing Document, financial gains or losses resulting from trade errors may be borne by the applicable client.

When trading on behalf of multiple clients, the Adviser and its related persons endeavor to allocate investment opportunities among such clients in a fair and equitable manner. The allocation of trades may vary based on, among other things, differences in investment objectives, capital constraints, and/or leverage preferences among clients, and any anticipated increase or decrease of any particular client's assets under management. In some cases, the Adviser and its related persons may elect to execute a single transaction, and to allocate a portion of the resulting position to multiple clients, including Significant Management Capital Funds and/or other DESCO Favorable Funds, with the actual allocation being determined by the Adviser or its related persons, as applicable. Positions purchased or sold in such a transaction generally will be allocated using a *pro rata* method, although the Adviser and its related persons may at times employ other methods in an effort to achieve an allocation that is fair and equitable (as determined by the Adviser or its related persons, as applicable). The policies and procedures of the Adviser and its related persons for allocating trades among multiple clients were developed by the firm's relevant senior management and compliance personnel, and the Adviser and its related persons do not alter such allocation policies without the approval of such personnel.

The Adviser does not currently participate in directed brokerage.

Item 13: Review of Accounts

For each of DESIM's investment strategies, a strategy head and/or other supervisors are responsible for reviewing trading data and other reports on a regular basis and overseeing the trading activity performed on behalf of DESIM's clients within such investment strategy. Such reviews include without limitation a verification that actual trading activity is consistent with the intended strategy, investment guidelines, and investment restrictions (if any); an analysis of risks associated with a particular strategy; and a determination that trading is undertaken in compliance with applicable regulations. Certain of the principal executive officers of DESIM or its affiliates may review investment strategies periodically. In addition, DESIM uses independent third parties to conduct financial audits of the accounts of its Fund clients, and the Adviser's compliance personnel review certain other aspects of regulatory compliance. The frequency of all such reviews is determined as warranted by the purpose of the review and other circumstances.

In addition to providing reports required by applicable law, DESIM provides reports to clients and/or underlying investors in Funds in accordance with the applicable Governing Document or other written agreements with such recipients. These reports include those that present, among other things, the net

asset value or the capital balance of such client's or investor's account and a measure of performance based on the change in valuation of such account or the applicable Fund during the period covered by the report.

In addition, with respect to certain Funds, an independent third-party administrator conducts an independent monthly verification of the Adviser's pricing of the investment positions held directly or indirectly by such Funds. The independent third-party administrator typically provides a monthly letter to investors in such Funds that confirms, among other things, the accuracy of the capital balances and of certain monthly performance information reported by the Adviser or the Adviser's related persons to those investors, the performance of an independent pricing verification, and the percentage (if any) of the relevant Fund's investments for which the independent third party was unable to verify prices.

Item 14: Client Referrals and Other Compensation

The Adviser and its related persons do not currently directly or indirectly compensate any person (other than supervised persons of the Adviser or its related persons) for client referrals. The Adviser may enter into capital introduction agreements with certain financial institutions; under these arrangements, the financial institution would not receive compensation for this service. Further, the Funds may engage, and have in the past engaged, internal and/or external placement agents for placement of interests in the Funds.

Item 15: Custody

Client assets are generally held in custody by unaffiliated qualified custodians; however, the Adviser is deemed to have custody of the assets of the Funds. Fund investors do not receive account statements from the custodian; rather, the Funds are subject to an annual audit, and the audited financial statements are distributed to each Fund investor.

Item 16: Investment Discretion

DESIM accepts discretionary authority to manage securities on behalf of its clients. The terms and procedures governing assumption of this authority, including any applicable investment objectives or guidelines, are set forth in the applicable Governing Document.

Item 17: Voting Client Securities

The Advisers Act generally requires investment advisers to vote all proxies within their authority. The Adviser does not vote proxies where it does not have the authority to do so, where it has agreed with the applicable client to limit the conditions under which the Adviser will exercise its proxy voting authority, or where the cost of doing so, in the opinion of the Adviser, would exceed the expected benefits to the applicable client.

The Adviser generally votes most shares through and in accordance with the recommendations of an independent third-party proxy voting service (the "Voting Service Recommendations"). The Adviser

believes that the independent third-party proxy voting service's internal policy regarding conflicts of interest, including the use of information barriers, addresses adequately its potential conflicts of interest.

The Adviser has designated particular employees to review certain proxy matters. When the designated employees believe that the Voting Service Recommendation may be contrary to the best interest of a client, the designated employees may consider an alternative vote, in which case they must obtain the approval of the Chief Compliance Officer and a Managing Director, or their respective designees, before instructing the proxy voting service to vote the applicable proxy. For the avoidance of doubt, the Adviser retains the authority to vote proxies, has not delegated such authority to any other party, and may vote against any Voting Service Recommendation if it determines such recommendation may be contrary to the client's best interests.

Additionally, the Adviser has established written policies and procedures designed to ensure that shares owned by a client to which the Adviser provides advice are voted in the best interest of such client (the "Proxy Voting Policy"). The Adviser will provide a copy of the Proxy Voting Policy to any client or prospective client upon request and may elect to provide a copy to underlying investors in Funds.

Unless expressly agreed otherwise with the applicable client, the Adviser believes the costs of voting proxies would exceed the expected benefits, and does not vote proxies, in the following circumstances: (a) proxies must be voted in-person; (b) proxies are in jurisdictions that impose restrictions on the sale of the securities in order to vote (*e.g.*, share-blocking jurisdictions); (c) relevant securities are on loan pursuant to a securities lending program; (d) proxies require execution of a power of attorney; (e) relevant securities must be re-registered to the shareholder's name and not held in "street name"; and (f) proxies require a certain client status with respect to the relevant resolutions, issuer, or jurisdiction to be voted.

Item 18: Financial Information

The Adviser does not require or solicit prepayment of fees more than six months in advance. The Adviser has not been the subject of a bankruptcy petition at any time during the past ten years and is not aware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments to its clients.