

## **Part 2A of Form ADV: Firm Brochure**

**May 22, 2020**

### **CastleKnight Management LP**

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This brochure provides information about the qualifications and business practices of CastleKnight Management LP (the “Adviser”). If you have any questions about the contents of this brochure, please contact the Chief Compliance Officer at 917-224-2510 or [csullivan@castleknight.com](mailto:csullivan@castleknight.com). This information has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Additional information about the Adviser is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Registration with the SEC does not imply a certain level of skill or training.

**Item 2.      Material Changes**

This is the initial filing of the Form ADV Part 2A for the Adviser and as such, there are no material changes to report. In the future, this Item will provide a summary of material changes that were made to the brochure.

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#### **Item 4. Advisory Business**

The Adviser is an investment adviser with its principal place of business in New York, New York. The general partner of the Adviser is CastleKnight Management GP LLC. Aaron Weitman is the managing member of the general partner of the Adviser. The Adviser expects to commence operations as an investment adviser on or about July 1, 2020. As a result, certain responses contained herein are based on the Adviser's expectations with respect to its investment advisory business.

The Adviser will provide investment advisory services on a discretionary basis to its clients, which will consist of pooled investment vehicles (the "Clients") intended for sophisticated investors and institutional investors.

The Adviser will provide advice to Clients based on specific investment objectives and strategies. The Adviser does not tailor advisory services to the individual needs of Clients.

The Adviser does not currently manage any assets. In accordance with Rule 203A-2 of the Investment Advisers Act of 1940, as amended (the "Advisers Act"), the Adviser anticipates that it will amend this brochure within 120 days of registration to indicate that it has met the asset eligibility requirements for registration with the SEC.

#### **Item 5. Fees and Compensation**

*Asset-Based and Performance-Based Compensation.* The fee schedules for the Clients will be described in detail in each Client's offering memorandum.

As a general matter, the Clients will pay the Adviser an asset-based investment management fee each quarter in advance ranging from 1.25% to 1.75% per annum based on the value of the net assets of the respective Client on the first day of each quarter (the "Management Fee"). The Adviser may waive or modify the Management Fee for investors that are members, principals, employees or affiliates of the Adviser or the General Partner, relatives of such persons, and for certain large or strategic investors.

As a general matter, CastleKnight Fund GP LLC (the "General Partner"), an affiliate of the Adviser, will be entitled to receive annual performance-based compensation (the "Incentive Allocation") from the Clients at a rate ranging from 15% to 20%, which is compensation that is based on a share of net capital appreciation of the assets of a Client. The Incentive Allocation will be subject to a loss carryforward provision. The General Partner may waive or modify the Incentive Allocation for investors that are members, principals, employees or affiliates of the Adviser or the General Partner, relatives of such persons, and for certain large or strategic investors.

*Expenses.* In addition to bearing the Management Fee and Incentive Allocation, if any, the Clients will also be subject to other expenses related to its investments and operations, such as all investment-related costs and expenses (i.e., expenses that, in the Adviser's sole discretion, are related to the investment of a Client's assets, whether or not such investments are consummated), including the Client's legal, investment banking, compliance (including consultants' fees), risk management expenses (including software licensing and consultants' fees), administrator (including, but not limited to, middle and back office services, software necessary for trade capture and portfolio management, any costs, fees and expenses related to investor communications, relations, reporting or other investor materials), audit and tax preparation (including third-party tax preparation) and accounting expenses (including third party accounting services and accounting software); Client organizational expenses; execution and order management system fees and expenses (including fees and expenses related to systems that facilitate trade compliance, commission management, stock locates and transaction cost analysis, and third party service providers used for implementation, custom reporting, updates, consultations, support, maintenance, monitoring and data extracts); investment expenses (i.e., expenses that, in the Adviser's sole discretion, are related to the investment of a Client's assets, whether or not such investments are consummated) such as commissions, research fees and expenses (including Bloomberg and similar subscriptions and data services and research-related travel (including meals and

lodging)); interest on margin accounts and other indebtedness; borrowing charges on securities sold short; custodial fees; bank service fees; Client-related insurance costs (including D&O and E&O insurance for the Adviser and the General Partner and members of the Governance Committee); independent Master Fund Governance Committee members' fees and expenses; expenses of regulatory compliance (including compliance with AIFMD and AEOL), filings and reporting (including but not limited to Section 13 filings, such as 13G, 13D, 13F and 13H filings, Section 16, Form D, Form PF, anti-money laundering compliance, state security, general regulatory compliance and non-U.S. position reporting filings, if applicable, and non-U.S. filings, if any); directors' fees; pricing service fees; portfolio valuation expenses (including data feeds and third-party valuation agents); fees and expenses related to bankruptcies, restructurings, reorganizations, creditors' committees or any activist-related activities; fees and expenses related to sourcing, evaluating, consummating, monitoring, managing and enforcing actual or potential investments (including, but not limited to, expenses relating to shareholder and management communication, soliciting proxies, hiring proxy advisory consultants, hosting shareholder forums, hiring public relations consultants and legal and other professional fees and expenses related thereto); all costs and expenses incurred in attempting to protect and enhance the value of a Client's investment (including any fees and expenses associated with any pending or threatened litigation, audit, investigation, administrative or other proceeding, as well as any settlement costs); any fees and expenses related to a Client's liquidation, if applicable; expenses relating to the offer and sale of interests in a Client and withdrawals and transfers thereof and any other expenses related to the purchase, sale or transmittal of Client assets.

The allocation of expenses by the Adviser between it and a Client and, to the extent the Adviser manages multiple Client accounts, among Clients represents a conflict of interest for the Adviser. The Adviser will adopt an expense allocation policy that is designed to address this conflict. The Adviser will allocate expenses to each Client in accordance with the Client's governing documents. The Adviser will seek to allocate any shared expenses for products and services benefitting multiple Clients or both the Adviser and a Client, and not covered in the Client's governing documents, in a fair and reasonable manner.

#### **Item 6. Performance-Based Fees and Side-by-Side Management**

The General Partner, an affiliate of the Adviser, will be entitled to receive the Incentive Allocation. Such Incentive Allocation may create an incentive for the Adviser to make investments that are riskier or more speculative than would be the case in the absence of such Incentive Allocation arrangements. In addition, certain Client accounts in the future may have higher asset-based fees or more favorable Incentive Allocation arrangements than other Client accounts or have asset-based fees or Incentive Allocation arrangements providing for payment to the Adviser at different times or over different time intervals. When the Adviser and its investment personnel manage more than one Client account a potential exists for one Client account to be favored over another Client account. The Adviser and its investment personnel will have a greater incentive to favor Client accounts that pay the Adviser (and indirectly its investment personnel) higher fees, Incentive Allocation, or compensation that is paid at different times or over different time intervals.

The Adviser may in the future manage multiple Client accounts. The Adviser has adopted and implemented policies and procedures intended to address conflicts of interest relating to the management of multiple accounts, including accounts with different fee arrangements, and the allocation of investment opportunities. Pursuant to these policies and procedures, the Adviser will review investment decisions for the purpose of ensuring that all accounts with the same or substantially similar investment objectives, strategies and restrictions are treated equitably. The performance of accounts with the same or substantially similar investment objectives, strategies and restrictions will also be reviewed to determine whether there are any unexplained significant discrepancies. In addition, the Adviser's procedures relating to the allocation of investment opportunities require that eligible Client accounts with the same or substantially similar investment objectives, strategies and restrictions participate in investment opportunities pro rata based on the relative value of the assets of each participating account to all participating accounts; provided, however that the Adviser may allocate investment opportunities to such accounts on a non-pro rata basis due to a consideration of factors including but not limited to timing of cash inflows/outflows, ability to participate in new issues, etc. To the extent orders are aggregated, the Client orders will be price-averaged and allocated in accordance with the aggregated order; provided, that the

aggregated order may be allocated on a different basis for reasons including but not limited to partially filled orders and to avoid odd lots or excessively small allocations. Finally, the Adviser's procedures also require the objective allocation for limited opportunities (such as initial public offerings and private placements) to ensure fair allocation among accounts. These areas will be monitored by the Adviser's Chief Compliance Officer.

#### **Item 7. Types of Clients**

Currently, the Adviser has no clients. The Adviser anticipates that its clients will consist of pooled investment vehicles. Any initial and additional subscription minimums with respect to investment in a Client are disclosed in the offering memorandum for each Client.

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

##### ***A. Methods of Analysis and Investment Strategies***

###### **Investment Objective and Strategy**

The investment objective of the Clients managed by the Adviser will be to seek superior capital appreciation by implementing an event driven / special situations investment strategy. The Adviser aims to remain nimble and invest across the capital structures of companies of varying sizes by deploying multiple strategies, including value investing, distressed investing, performing credit investing, passive activism, and merger arbitrage. The Adviser will use fundamental, bottoms-up analysis to identify attractive investment opportunities, developing many positions around catalysts such as sharp changes in business operations, potential monetizations, and/or reorganizations of capital structures in industries in which its team holds deep knowledge and sees underappreciated investment opportunities.

##### ***B. Material Risks (Including Significant or Unusual Risks) Relating to Investment Strategies***

The following summary identifies the material risks related to the Adviser's significant investment strategies and should be carefully evaluated before making an investment with the Adviser; however, the following does not intend to identify all possible risks of an investment with the Adviser or provide a full description of the identified risks. Investors and potential investors in a Client should refer to the offering memorandum for the Client for a further discussion of the applicable risks.

*Credit Risk.* The issuers of debt instruments may face significant ongoing uncertainties and exposure to adverse conditions that may undermine each issuer's ability to make timely payment of interest and principal. In addition, major economic downturns and financial market swings have adversely affected, and could in the future adversely affect, the ability of some issuers to repay principal and pay interest and may increase the incidence of default for debt instruments. Changes in the financial condition of an issuer, changes in general economic conditions, and changes in specific economic conditions that affect a particular type of issuer can impact the credit quality of an issuer and the value of an issuer's outstanding debt. Lower quality instruments are often considered to be speculative in nature and involve greater risk of default, and tend to be more sensitive to these changes than higher quality instruments.

*Interest Rate Risk.* A change in interest rates can have a significant effect on any portfolio of fixed income assets. To the extent that the cash flow from a fixed income security is known in advance, the present value (i.e., discounted value) of that cash flow decreases as interest rates increase; to the extent that the cash flow is contingent, the dollar value of the payment may be linked to then-prevailing interest rates. A Client may attempt to minimize the exposure of the portfolios to interest rate changes through the use of interest rate swaps, interest rate futures and/or interest rate options. However, there can be no guarantee that the Adviser will be successful in fully mitigating the impact of interest rate changes on the portfolios.

*Concentration of Investment.* A Client may concentrate its investments in a small number of companies or sectors. The assets of a Client generally include loans made to, and debt securities issued by, companies

which may be highly-leveraged, which may be experiencing financial difficulties, or which may have defaulted in obligations to pay interest or principal. If the Adviser's evaluation of the financial situation of a particular company should prove incorrect, a Client could experience substantial losses as a result of a decline in the market value of securities or other assets in which the Client holds a long position or an increase in the value of securities or other assets in which the Client holds a short position.

*Over-the-Counter Markets.* Bank loans, currency forward contracts and swaps and other forms of derivative instruments may not be traded on regulated exchanges or guaranteed by an exchange or clearing house. Over-the-counter transactions may be subject to less or no requirements with respect to record keeping, financial responsibility or segregation of customer funds and positions. The business failure of a counterparty with which a Client has entered into a forward contract or other derivative will most likely result in a default. The default of a party with which a Client has entered into a forward contract or derivative may result in the loss of unrealized profits and force the Client to cover its resale commitments, if any, at the then current market price. Although generally a Client seeks to reserve for itself the right to terminate its derivative positions, it may not always be possible to dispose of or close out a derivative position without the consent of the counterparty, and the Client may not be able to enter into an offsetting contract in order to be able to cover its risk. There is no assurance that a liquid secondary market will exist for derivative instruments purchased or sold, and a Client may be required to maintain a position until exercise or expiration, which could result in losses.

*Participation in Certain Investments through Special Purpose Vehicles or Arrangements with Affiliated Private Funds.* A Client may participate in certain debt instruments and other investments (including bank loans, loan participations and other similar instruments) through special purpose vehicles that are set up for such purpose or indirectly through arrangements with other affiliated or non-affiliated private investment funds. In particular, a Client may acquire portions of, or otherwise participate in, such investments that an affiliated private investment fund previously originated for purchase prices equal to the fair market value of the acquired interests as of the date of acquisition. In such arrangements, a Client will be exposed to the risk of non-performance by the special purpose vehicle or by the affiliated private investment fund and to the credit risk of such vehicle or fund. In the event of the insolvency of such vehicle or fund, a Client may not be able to recover their investment.

*Merger Arbitrage Deal Risk.* The most significant risk in merger arbitrage is that a transaction will be abandoned such that the value of securities purchased may fall, resulting in loss of capital. This loss may be increased if the price of the shorted security (i.e., the acquiring company) rises as the deal is called off. Abandonment may occur for a number of reasons, including (i) regulatory or antitrust prohibitions, delays or restrictive conditions for approval of the merger; (ii) problems arising out of due diligence review; (iii) incompatibility of the managements of the two parties; (iv) incompatibility of strategies; or (v) a movement outside of the required price range in "collar" transactions. Where a deal is not abandoned, there may still be a risk of price renegotiation.

Risk of abandonment is comparatively low in spin-off transactions as the decision-making is completely in one party's control (subject only to the approval of the U.S. Internal Revenue Service (the "IRS") if tax-free status is sought). Accordingly, it is unlikely that there will be regulatory issues. However, the timing of the spin-off may be delayed.

*Short Sales.* Short sales can, in certain circumstances, substantially increase the impact of adverse price movements on a Client's portfolio. A short sale involves the risk of a theoretically unlimited increase in the market price of the particular investment sold short, which could result in an inability to cover the short position and a theoretically unlimited loss. There can be no assurance that securities necessary to cover a short position will be available for purchase.

*Use of Leverage.* The Clients expect to utilize leverage. This results in a Client controlling substantially more assets than the Client has equity. Leverage increases a Client's returns if the Client earns a greater return on investments purchased with borrowed funds than the Client's cost of borrowing such funds. However, the use of leverage exposes a Client to additional levels of risk, including (i) greater losses from investments than would otherwise have been the case had the Client not borrowed to make the

investments, (ii) margin calls or interim margin requirements which may force premature liquidations of investment positions and (iii) losses on investments where the investment fails to earn a return that equals or exceeds a Client's cost of borrowing such funds. In the event of a sudden, precipitous drop in value of a Client's assets, a Client might not be able to liquidate assets quickly enough to repay its borrowings, further magnifying its losses.

In an unsettled credit environment, the Adviser may find it difficult or impossible to obtain leverage for a Client. In such event, a Client could find it difficult to implement its strategy. In addition, any leverage obtained, if terminated on short notice by the lender, could result in the Adviser being forced to unwind a Client's positions quickly and at prices below what the Adviser deems to be fair value for such positions.

*Hedging Transactions.* A Client may utilize a variety of financial instruments such as ETFs (as defined below), derivatives, options, swaps, caps and floors, forward contracts for both risk management and general investment and speculation purposes. With respect to a Client's risk management and hedging transactions, there can be no assurances that a particular hedge is appropriate, or that a certain risk is measured properly. Further, while a Client may enter into hedging transactions to seek to reduce risk, such transactions may result in poorer overall performance and increased (rather than reduced) risk for a Client than if it did not engage in any such hedging transactions. In addition, a Client may choose not to enter into hedging transactions with respect to some or all of its positions.

*Volatility.* The markets in which the investments of a Client trades may be volatile and/or illiquid and may not move in correlation with each other or in directions anticipated by the Adviser, so that hedging and arbitrage activities may not be successful. Substantial competition from other investors and market participants may render it difficult or impossible for a Client to achieve intended results or promptly to effect transactions in volatile markets. The risk management techniques which may be utilized by the Adviser will not provide any assurance that a Client will not be exposed to risks of significant investment losses.

*Portfolio Turnover.* The investment strategy of a Client may require the Adviser to actively trade the Client's portfolio, and as a result, turnover and brokerage commission expenses of a Client may significantly exceed those of other investment entities of comparable size.

*Non-Diversification.* Although a Client has no investment restrictions with respect to types of securities, countries or industry sectors, a Client's portfolios may not be as diversified as other investment vehicles. Accordingly, a Client's portfolio may be subject to more rapid change in value than would be the case if a Client was required to maintain a wide diversification.

*Non-U.S. Securities.* While a Client expects the majority of their assets to be invested in securities that are U.S. based or listed, a Client may invest outside of the United States. Investing in securities of non-U.S. governments and companies which are generally denominated in non-U.S. currencies and utilization of options and swaps on non-U.S. securities involves certain considerations comprising both risks and opportunities not typically associated with investing in securities of the United States government or United States companies. These considerations include changes in exchange rates and exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, greater risks associated with counterparties and settlement, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

*Emerging Markets.* There are greater risks associated with investments in securities of issuers located in less developed countries than investments in securities of issuers located in the U.S. and other developed markets. Political risk for many developing countries is a significant factor. During certain social and political circumstances, governments may be involved in policies of expropriation, confiscatory taxation, nationalization, intervention in the securities market and trade settlement, and imposition of foreign investment restrictions and exchange controls. In comparison to more developed markets, trading volumes in emerging markets may be lower, which can result in a lack of liquidity and greater price volatility.



*Over-the-Counter FX Prime Brokerage Structure Risks.* The Adviser will utilize a prime brokerage structure for purposes of its FX trading. This structure poses additional risks as compared to the Adviser's futures trading. The Adviser may enter into agreements with its FX prime brokers in which limits may be imposed on the net open position amount and the daily settlement amount outstanding between an FX prime broker and each FX dealer, on the time frame in which a transaction has to be recorded between an FX prime broker and the dealers measured from the moment of trade execution with an FX dealer, and on the tenor of the transactions. If any of the limits mentioned herein were to be breached in the course of one of the Adviser's FX transactions, each FX prime broker reserves the right to not accept this transaction or even to terminate its relevant agreements with the Adviser with immediate effect. Also, under certain circumstances, an FX prime broker may have the right to unilaterally amend the mentioned limits.

The aforementioned limits pose certain risks to a Client. For example, the Adviser may not, from time to time, be able to trade through a preferred FX dealer if the position limit with this FX dealer has been fully utilized. Additionally, an immediate termination of a prime brokerage or related give-up agreement would force the Adviser to continue its FX trading without give-up facilities (i.e., to execute all of its FX transactions through its FX prime brokers). This could lead to increased slippage because the FX prime broker(s) may provide less competitive bid-ask prices than the other FX dealers under the prime brokerage structure.

*Currency Risks.* A Client may have exposure to fluctuations in currency exchange rates. It may, in part, seek to offset the risks associated with this exposure or enter into foreign exchange transactions to increase its returns. These transactions involve a significant degree of risk and foreign exchange markets are volatile, specialized and technical. Significant changes, including changes in liquidity and prices, can occur in these markets within very short periods of time. Changes in exchange rates over time are the result of many factors directly or indirectly affecting the economic and political conditions in the country or economic region associated with a specific currency. Exchange rates fluctuate for a number of reasons, including:

- existing and expected rates of inflation,
- existing and expected interest rate levels,
- the balance of payments between the relevant country and its major trading partners,
- political, civil or military unrest in the relevant country or economic region; and
- monetary, fiscal and trade policies of the relevant country or economic region (including pegging, de-pegging, flooring or capping an exchange rate relative to another currency).

Governments use a variety of techniques, such as intervention by their central banks or imposition of regulatory controls or taxes, to affect the exchange rate of their currencies. Foreign exchange rates can either be fixed by sovereign governments or floating. Exchange rates of most economically developed nations are permitted to fluctuate in value relative to the value of other currencies. However, governments do not always allow their currencies to float freely in response to economic forces. Governments use a variety of techniques, such as intervention by their central bank or imposition of regulatory controls or taxes, to affect the trading value of their respective currencies. They may also issue a new currency to replace an existing currency or alter the exchange rate or relative exchange characteristics by devaluation or revaluation of a currency. The value of a Client could be affected by the actions of sovereign governments, which could change or interfere with theretofore freely determined currency valuation, fluctuations in response to other market forces and the movement of currencies across borders. Additionally, market perceptions of the relative strength or cohesion of a specific political state or monetary union can dramatically affect the value of a currency. Fluctuations in exchange rates may negative impact the value of an investment in a Client to the extent a Client has currency exposure in the form of a hedge, a non-U.S. dollar denominated instrument or as a standalone position.

### **C. Risks Associated with Types of Securities that are Primarily Recommended (Including Significant or Unusual Risks)**

*Equity-Related Instruments in General.* The Adviser may use equity-related instruments in its investment program. Certain options and other equity-related instruments may be subject to various types of risks, including market risk, liquidity risk, counterparty credit risk, legal risk and operations risk. In addition, equity-related instruments can involve significant economic leverage and may, in some cases, involve significant risks of loss.

*Options.* The Adviser on behalf of a Client may buy and sell options. If a Client buys an option, it will pay a “premium” representing the market value of the option. Unless the price of the securities underlying the option changes and it becomes profitable to exercise or offset the option before it expires, a Client will lose the entire amount of the premium. The uncovered writer of a call option is subject to a risk of loss should the price of the underlying security increase, and the uncovered writer of a put option is subject to a risk of loss should the price of the underlying security decrease.

*Futures, Forwards and Options Thereon.* Trading in commodity futures and forward contracts and related options involves a high degree of risk. The prices for such contracts and options tend to be very volatile, and may be influenced by changing supply and demand relationships, weather, governmental, agricultural, commercial and trade programs and policies, and world political and economic events. Due to the small amount of margin required, trading in futures involves a high degree of leverage. A relatively small change in market prices, interest rates or other factors may produce a disproportionately large profit or loss. Although a Client ordinarily purchases or sells commodity futures contracts only if there is an active market for each such contract, no assurance can be given that a liquid market will exist for the contracts at any particular time. Futures exchanges and boards of trade may limit the amount of fluctuation permitted in certain futures contract prices during a single trading day. Once the daily limit has been reached in a particular contract, no trades may be made that day at a price beyond that limit. Futures contract prices could move to the daily limit for several consecutive trading days with little or no trading, thereby preventing prompt liquidation of futures positions and subjecting some futures traders to substantial losses.

*Mortgage-Backed and Asset-Backed Securities.* A Client may invest in mortgage-backed securities, asset-backed securities, collateralized debt obligations and other similar instruments representing interests in pools of underlying residential or commercial mortgage loans, commercial loans, lease obligations, or other assets. Payments of principal and interest on the underlying loans are passed through to the holders of mortgage-backed and asset-backed securities over the lives of the securities. The investment characteristics of mortgage-backed and asset-backed securities differ significantly from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that principal may be prepaid at any time because the underlying residential or commercial mortgage loans or other assets generally may be prepaid at any time. Early repayments of principal can ordinarily be expected to accelerate during periods of declining interest rates. For certain types of asset pools, such as collateralized mortgage obligations, prepayments may be allocated to one tranche of securities ahead of other tranches, in order to reduce the risk of prepayment for the other tranches. On the other hand, mortgage-backed and asset-backed securities are subject to substantially the same risk of depreciation during periods of rising interest rates as other fixed-income securities. A Client may also invest in derivative mortgage-backed securities, such as principal-only (“POs”) and interest-only (“IOs”) or inverse floating-rate securities, which are more exposed to mortgage repayments, and which therefore generally involve a greater amount of risk. Small changes in repayments can significantly impact the cash flow and the market value of these securities. In addition, particular derivative securities may be leveraged such that their exposure (*i.e.*, price sensitivity) to interest rate and/or prepayment risk is magnified.

*Distressed Securities.* Investments in unrated or low-grade debt securities of distressed companies are subject to greater risk of loss of principal and interest than higher-rated debt securities. Distressed securities include those of a company currently in, or expected to be subject to, bankruptcy, restructuring, an operational turn-around or other similar events. There is substantial uncertainty concerning the outcome of transactions involving such issuers. In addition, evaluating credit risk for foreign debt securities involves

greater uncertainty because credit rating agencies throughout the world have different standards, making comparison across countries difficult.

*Closed-End Funds.* Close-ended funds are regulated investment companies that issue a fixed number of shares, which are listed and trade on a nationally recognized stock exchange and are generally not redeemable. The price per share of a closed-ended fund is determined by the market and is usually different from the net asset value ("NAV") per share of the investments held by a Client. The price per share will generally trade at a premium or discount to the NAV per share. Unlike exchange-traded funds or open-ended mutual funds, closed-ended funds cannot be redeemed at their NAV and do not issue additional shares. This supply and demand limitation can cause large premiums or discounts. If a Client purchases shares of a closed-ended fund at a premium, the premium could decline over time. Conversely, if a Client purchases shares at a discount, there is no guarantee that the shares will ever trade close to their NAV. Historically, closed-ended funds traded at large discounts, particularly in periods of market stress or dislocation.

In addition to the foregoing, it should be noted that the U.S. Investment Company Act of 1940, as amended (the "Investment Company Act") places certain restrictions on the percentage of ownership that a private investment partnership may have in a registered investment company.

*Exchange-Traded Funds.* A Client will invest in shares of exchange-traded funds ("ETFs"), including for hedging purposes. As an investor in ETFs, a Client will bear its ratable share of various fees, allocations, and expenses of the ETF, all of which are embedded in the net asset value of the ETF. ETFs represent shares of ownership in either funds or unit investment trusts that hold portfolios of common stocks, bonds or other instruments, which are designed to generally correspond to the price and yield performance of an underlying index. A primary risk factor relating to ETFs is that the general level of stock or bond prices may decline, thus affecting the value of an equity or fixed income ETF, respectively. An ETF may also be adversely affected by the performance of the specific sector or group of industries on which it is based. Moreover, although ETFs are designed to provide investment results that generally correspond to the price and yield performance of their underlying indices, ETFs may not be able to exactly replicate the performance of the indices because of their expenses and other factors. It should also be noted that the Investment Company Act places certain restrictions on the percentage of ownership that a private investment fund may have in a registered investment company (an ETF is a registered investment company).

*Structured Credit.* Structured credit generally refers to a method of pooling debt obligations and then redistributing the associated cash flows, in theory reallocating the associated risks at the same time. The Adviser will seek to invest in structured credit both long and short where its single name corporate credit research views give it an advantage versus model driven investors including, without limitation, CDX index tranches, bespoke equity and mezzanine tranches, collateralized loan obligations liabilities and equity, Bank Trust Preferred CDOs and CMBX.

*High Yield Securities.* A Client will invest in "high yield" bonds and preferred securities that are rated in the lower rating categories by the various credit rating agencies (or in comparable non-rated securities). Securities in the lower rating categories are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than securities with higher ratings in the case of deterioration of general economic conditions. Because investors generally perceive that there are greater risks associated with the lower-rated securities, the yields and prices of such securities may tend to fluctuate more than those for higher-rated securities. The market for lower-rated securities is thinner and less active than that for higher-rated securities, which can adversely affect the prices at which these securities can be sold. In addition, adverse publicity and investor perceptions about lower-rated securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of such lower-rated securities.

*Preferred Stocks.* A Client will invest in preferred stocks. Preferred stocks, like many debt obligations, are generally fixed-income securities. Shareholders of preferred stocks normally have the right to receive

dividends at a fixed rate when and as declared by the issuer's board of directors, but do not participate in other amounts available for distribution by the issuing corporation. In some countries, dividends on preferred stocks may be variable, rather than fixed. Dividends on the preferred stock may be cumulative, and all cumulative dividends usually must be paid prior to common shareholders of common stock receiving any dividends. Because preferred stock dividends must be paid before common stock dividends, preferred stocks generally entail less risk than common stocks. Upon liquidation, preferred stocks are entitled to a specified liquidation preference, which is generally the same as the par or stated value, and are senior in right of payment to common stock. Preferred stocks are, however, equity securities in the sense that they do not represent a liability of the issuer and, therefore, do not offer as great a degree of protection of capital or assurance of continued income as investments in corporate debt securities. Preferred stocks are generally subordinated in right of payment to all debt obligations and creditors of the issuer, and convertible preferred stocks may be subordinated to other preferred stock of the same issuer.

*Commodity-Related Securities.* The production and marketing of commodities may be affected by actions and changes in governments. In addition, commodity-related securities may be cyclical in nature. During periods of economic or financial instability, commodity-related securities may be subject to broad price fluctuations, reflecting volatility of energy and basic materials prices and possible instability of supply of various commodities. Commodity-related securities may also experience greater price fluctuations than the relevant commodity. In periods of rising commodity prices, such securities may rise at a faster rate, and conversely, in time of falling commodity prices, such securities may suffer a greater price decline.

*Derivatives.* Swaps, and certain options and other custom derivative or synthetic instruments are subject to the risk of nonperformance by the counterparty to such instrument, including risks relating to the financial soundness and creditworthiness of the counterparty. In addition, investments in derivative instruments require a high degree of leverage, meaning the overall contract value (and, accordingly, the potential for profits or losses in that value) is much greater than the modest deposit used to buy the position in the derivative contract. Derivative securities can also be highly volatile. The prices of derivative instruments and the investments underlying the derivative instruments may fluctuate rapidly and over wide ranges and may reflect unforeseeable events or changes in conditions, none of which can be controlled by a Client or the Adviser. Further, transactions in derivative instruments may not be undertaken on recognized exchanges, and will expose a Client's account to greater risks than regulated exchange transactions that provide greater liquidity and more accurate valuation of securities.

*Swaps.* Whether a Client's use of swap agreements or swaptions (defined below) will be successful will depend on the Adviser's ability to select appropriate transactions for a Client. Swap agreements and options on swap agreements ("swaptions") can be individually negotiated and structured to include exposure to a variety of different types of investments, asset classes or market factors. Depending on their structure, swap agreements may increase or decrease the holder's exposure to, for example, equity securities, long-term or short-term interest rates, non-U.S. currency values, credit spreads or other factors. Swap agreements can take many different forms and are known by a variety of names. Swap transactions may be highly illiquid and may increase or decrease the volatility of the Client's portfolio. Moreover, a Client bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty. A Client will also bear the risk of loss related to swap agreements, for example, for breaches of such agreements or the failure of the Client to post or maintain required collateral. It is possible that developments in the swap markets, including potential government regulation, could adversely affect the Client's ability to terminate swap transactions or to realize amounts to be received under such transactions.

*Forward Foreign Exchange Contracts.* A Client will enter into forward foreign exchange contracts. A forward foreign exchange contract is a contractually binding obligation to purchase or sell a particular currency at a specified date in the future. Forward foreign exchange contracts are not uniform as to the quantity or time at which a currency is to be delivered. As a result of the Dodd-Frank Act, the CFTC now regulates non-deliverable forwards (including deliverable forwards where the parties do not take delivery). Changes in the forward markets may entail increased costs and result in burdensome reporting requirements.

Certain of the forward foreign exchange contracts which a Client trades are effected through the interbank market. The interbank market is not a market with a specific location but rather a network of electronically linked participants. Central clearing is only offered in respect of certain types of forward foreign exchange contracts entered into on this market and accordingly, if a Client wishes to 'close out' any such contract before the specified date, it will be reliant upon the agreement of the relevant counterparty. There is currently no limitation on the daily price movements of forward contracts, and none of a Client's counterparties will be required to make or continue to make a market in any forward contracts. In exceptional circumstances there have been periods during which certain banks have refused to quote prices for forward contracts or have quoted prices with an unusually wide spread between the price at which the bank is prepared to buy and that at which it is prepared to sell. The imposition of credit restrictions on the dealing facilities which any counterparty may agree to provide to a Client may subsequently limit the ability of the Client to enter into transactions in forward foreign exchange contracts. For forward foreign exchange contracts that are not regulated as swaps by the CFTC or not yet subject to mandatory exchange trading or clearing by the CFTC, a Client will be subject to the risk that a Client's counterparties may be unable or refuse to perform with respect to such contracts. Any such default would eliminate any profit potential and compel a Client to cover its commitments for resale or repurchase, if any, at the then current market price. These events could result in significant losses.

*Bank Debt.* The Adviser on behalf of a Client will invest in bank debt, which includes interests in loans to companies or their affiliates undertaken to finance a capital restructuring or in connection with recapitalizations, acquisitions, leveraged buyouts, refinancings or other financially leveraged transactions and may include loans which are designed to provide temporary or bridge financing to a borrower pending the sale of identified assets, the arrangement of longer-term loans or the issuance and sale of debt obligations. A Client may also invest in collateral on financial instruments, including interests on whole commercial, consumer and other loans and lease contracts. These loans, which may bear fixed or floating rates, have generally been arranged through private negotiations between a corporate borrower and one or more financial institutions ("Lenders"), including banks. A Client's investment may be in the form of participations in loans ("Participations") or of assignments of all or a portion of loans from third parties ("Assignments").

In certain cases, the rights and obligations acquired by a Client through the purchase of an assignment may differ from, and be more limited than, those held by the assigning selling institution. Assignments are sold strictly without recourse to the selling institutions, and the selling institutions will generally make no representations or warranties to a Client about the underlying loan, the borrowers, the documentation of the loans or any collateral securing the loans.

A Client has the right to receive payments of principal, interest and any fees to which it is entitled only from the Lender selling the Participation and only upon receipt by the Lender of the payments from the borrower. In connection with purchasing Participations, a Client generally will have no right to enforce compliance by the borrower with the terms of the loan agreement relating to the loan, nor any rights of set-off against the borrower, and a Client may not benefit directly from any collateral supporting the loan in which it has purchased the Participation. Thus, a Client assumes the credit risk of both the borrower and the Lender that is selling the Participation. In addition, in connection with purchasing Participations, a Client generally will have no role in terms of negotiating or effecting amendments, waivers and consents with respect to the loans underlying the Participations. In the event of the insolvency of the Lender, a Client may be treated as a general creditor of the Lender and may not benefit from any set-off between the Lender and the borrower.

Investments in Participations and Assignments involves additional risks, including the risk of nonpayment of principal and interest by the borrower, the risk that any loan collateral may become impaired and that a Client may obtain less than the full value for the loan interests sold because they may be illiquid. Purchasers of loans depend primarily upon the creditworthiness of the borrower for payment of interest and repayment of principal. If scheduled interest or principal payments are not made, the value of the instrument may be adversely affected.

Investments in loans through direct assignment of a financial institution's interests with respect to a loan may involve additional risks. For example, if a loan is foreclosed, a Client could become part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral. In addition, it is conceivable that under emerging legal theories of lender liability, a Client could be held liable as a co-lender.

A loan is often administered by a bank or other financial institution that acts as agent for all holders. The agent administers the terms of the loan, as specified in the loan agreement. Unless, under the terms of the loan or other indebtedness, a Client has direct recourse against the borrower, a Client may have to rely on the agent to apply appropriate credit remedies against a borrower. If assets held by the agent for the benefit of a Client were determined to be subject to the claims of the agent's general creditors, a Client might incur certain costs and delays in realizing payment on the loan or loan participation and could suffer a loss of principal or interest.

Interests in loans are also subject to additional liquidity risks. Loans are generally subject to legal or contractual restrictions on resale. Loans are not currently listed on any securities exchange or automatic quotation system, but are traded by banks and other institutional investors engaged in loan syndication. As a result, no active market may exist for some loans, and to the extent a secondary market exists for other loans, such market may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods. Consequently, a Client may have difficulty disposing of Assignments or Participations in response to a specific economic event such as deterioration in the creditworthiness of the borrower, which can result in a loss. In such market situations, it may be more difficult for a Client to assign a value to Assignments or Participations when valuing a Client's securities and calculating its assets.

*Over-the-Counter Derivatives.* Over-the-counter ("OTC") derivatives, and the risks associated with OTC derivatives, are different from financial instruments traded on exchanges or through clearing houses. The risks related to OTC derivatives include, but are not limited to the following: (i) credit risk (the exposure of the possibility of loss resulting from a counterparty's failure to meet its financial obligations); (ii) legal risk (the characterization of a transaction, particularly the enforceability of such contract in the context of insolvency or bankruptcy); (iii) operational risk (inadequate controls, deficient procedures, human error, system failure or fraud); (iv) documentation risk (exposure to loss created by poor documentation); (v) liquidity risk (reliance on the dealer to make a market in the underlying derivative); and (vi) systematic risk (the risk that financial difficulties in one institution or a major market disruption will cause uncontrollable financial harm to the financial system).

Transaction in OTC derivatives may involve other risks as well, as there is no exchange market on which a counterparty can close out an open position. OTC transactions are bilateral agreements, and therefore, there is a certain reliance on the dealer to provide liquidity to an existing position and to assess the value of a position, particularly if the derivative is not standard. Certain OTC derivatives may require little or no initial margin, and generally, variable margin (i.e., the amount posted after the initial transaction) is much lower than margin for exchange traded instruments. As a result, to the extent a Client has entered into an OTC derivative, these lower margin amounts will allow a Client to amplify its gains and losses. A large movement against a Client's OTC derivative positions will result in a loss and you may lose some or all of your investment.

The SEC and the U.S. Commodity Futures Trading Commission (the "CFTC") will also require a substantial portion of derivative transactions that are currently executed on a bi-lateral basis in the OTC markets to be executed through a regulated securities, futures, or swap exchange or execution facility. Certain CFTC-regulated derivatives trades are subject to these rules. It is not yet clear when the parallel SEC

requirements will go into effect. These requirements may make it more difficult and costly for investment funds, including a Client, to enter into highly tailored or customized transactions. They may also render certain strategies in which a Client might otherwise engage impossible or so costly that they will no longer be economical to implement. If a Client decides to become a direct member of one or more of these exchanges or execution facilities, a Client would be subject to all of the rules of the exchange or execution facility, which would bring additional risks and liabilities, and potential additional regulatory requirements.

OTC derivative dealers are now required to register with the CFTC and will ultimately be required to register with the SEC. Dealers are subject to new minimum capital and margin requirements, business conduct standards, disclosure requirements, reporting and recordkeeping requirements, transparency requirements, position limits, limitations on conflicts of interest, and other regulatory burdens. These requirements further increase the overall costs for OTC derivative dealers, which costs may be passed along to market participants as market changes continue to be implemented. The overall impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") on a Client remains highly uncertain and it is unclear how the OTC derivatives markets will adapt to this new regulatory regime, along with additional, sometimes overlapping, regulatory requirements imposed by non-U.S. regulators.

*Debt Instruments.* The Adviser on behalf of a Client may invest a portion of its assets in bonds and other fixed income instruments. The value of fixed income instruments changes in response to fluctuations in interest rates. When interest rates rise, the value of debt instruments can be expected to decline. Debt instruments with longer maturities tend to be more sensitive to interest rate movements than those with shorter maturities. Debt instruments in which a Client invests may be unrated, and whether or not rated, the debt instruments may have speculative characteristics. Fixed income securities are also subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (*i.e.*, credit risk) and are subject to price volatility due to factors including interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity.

*Sovereign Debt.* The Adviser on behalf of a Client may invest in debt securities issued by governments and their agencies, including governments of emerging markets. Investing in instruments of government issuers in emerging markets may involve significant economic and political risks. Holders of certain emerging markets instruments may be requested to participate in the restructuring and rescheduling of these obligations and to extend further loans to their issuers. The interests of holders of emerging markets instruments could be adversely affected in the course of restructuring arrangements. The issuers of the sovereign debt securities in which a Client expects to invest have in the past experienced serious difficulties in servicing their external debt obligations. These difficulties have, among other effects, forced such countries to reschedule interest and principal payments on obligations, and to restructure certain indebtedness. Rescheduling and restructuring arrangements have included reducing and rescheduling interest and principal payments by negotiating new or amended credit agreements, or converting outstanding principal and unpaid interest to "Brady Bonds" or similar instruments, and obtaining new credit to finance interest payments. Sovereign debt rated below investment grade by Moody's and S&P is regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations.

*Micro to Small Capitalization Companies.* From time to time, a significant portion of a Client's assets will be invested through portfolio managers in securities of micro and small capitalization companies and recently organized companies and, conversely, a Client may establish significant short positions in such securities. Historically, such securities have been more volatile in price than those of larger capitalized, more established companies included in the Standard & Poor's 500 Index (the "S&P 500"). The securities of micro and small capitalization and recently organized companies pose greater investment risks because such companies have limited product lines, distribution channels and financial and managerial resources. Further, there is often less publicly available information concerning such companies than for larger, more established businesses. The equity securities of micro and small capitalization companies are often traded over-the-counter or on regional exchanges and may not be traded in the volumes typical on a national securities exchange. Consequently, the portfolio manager may be required to dispose of such securities or cover a short position over a longer (and potentially less favorable) period of time than is required to dispose of or cover a short position with respect to the securities of larger, more established companies.

Investments in companies with limited operating histories are more speculative and entail greater risk than do investments in companies with an established operating record.

### **Additional Risks Relating to the Adviser**

*Systems and Operational Risks.* The Adviser relies on certain financial, accounting, data processing and other operational systems and services that are employed by the Adviser and/or by third-party service providers, including prime brokers, the third-party administrator, market counterparties and others. Many of these systems and services require manual input and are susceptible to error. These programs or systems may be subject to certain defects, failures or interruptions. For example, the Adviser and Clients could be exposed to errors made in the confirmation or settlement of transactions, from transactions not being properly booked, evaluated or accounted for or related to other similar disruptions in Clients' operations. In addition, despite certain measures established by the Adviser and third-party service providers to safeguard information in these systems, the Adviser, Clients and their third-party service providers are subject to risks associated with a breach in cybersecurity which may result in damage and disruption to hardware and software systems, loss or corruption of data and/or misappropriation of confidential information. Any such errors and/or disruptions may lead to financial losses, the disruption of Client trading activities, liability under applicable law, regulatory intervention or reputational damage.

*Cybersecurity Risk.* The information and technology systems of the Adviser and of key service providers to the Adviser and Clients may be vulnerable to potential damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Although the Adviser has implemented various measures designed to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, it may be necessary for the Adviser to make a significant investment to fix or replace them and to seek to remedy the effect of these issues. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in the operations of the Adviser or Client accounts and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information.

*Systemic Risk.* Systemic risk is the risk of broad financial system stress or collapse triggered by the default of one or more financial institutions, which results in a series of defaults by other interdependent financial institutions. Financial intermediaries, such as clearing houses, banks, securities firms and exchanges with which Clients interact, as well as Clients, are all subject to systemic risk. A systemic failure could have material adverse consequences on Clients and on the markets for the securities in which Clients seek to invest.

*Assumption of Business, Terrorism and Catastrophe Risks.* Opportunities involving the assumption by Clients of various risks relating to particular assets, markets or events may be considered from time to time. Clients' portfolios are subject to the risk of loss arising from exposure that it may incur, directly or indirectly, due to the occurrence of various events, including, without limitation, hurricanes, earthquakes, and other natural disasters, terrorism and other catastrophic events and events that could adversely affect the health or life expectancy of people. These risks of loss can be substantial, could greatly exceed all income or other gains, if any, received by Clients in assuming these risks and, depending on the size of the loss, could adversely affect the return of Clients.

*Effects of Health Crises and Other Catastrophic Events.* Health crises, such as pandemic and epidemic diseases, as well as other catastrophes that interrupt the expected course of events, such as natural disasters, war or civil disturbance, acts of terrorism, power outages and other unforeseeable and external events, and the public response to or fear of such diseases or events, have and may in the future have an adverse effect on Clients' investments and the Adviser's operations. For example, any preventative or protective actions that governments may take in respect of such diseases or events may result in periods of business disruption, inability to obtain raw materials, supplies and component parts, and reduced or disrupted operations for Client portfolio companies. In addition, under such circumstances the operations,



including functions such as trading and valuation, of the Adviser and other service providers could be reduced, delayed, suspended or otherwise disrupted. Further, the occurrence and pendency of such diseases or events could adversely affect the economies and financial markets either in specific countries or worldwide.

**Item 9. Disciplinary Information**

This Item is not applicable.

**Item 10. Other Financial Industry Activities and Affiliations**

While the Clients may trade commodity interests, the Adviser (and its affiliates) expects to claim an exemption from registration with the CFTC as a commodity pool operator pursuant to CFTC Rule 4.13(a)(3).

Each of the Clients may enter into agreements, or “side letters,” with certain prospective or existing Client investors whereby such investors including such persons that may be affiliated with the Adviser or its related persons may be subject to terms and conditions that are more advantageous than those set forth in the offering memorandum for the Client. For example, such terms and conditions may provide for special rights to make future investments in a Client, other investment vehicles or managed accounts; special redemption rights, including those relating to frequency or notice; a waiver or rebate in fees or redemption penalties to be paid by the and/or other terms; rights to receive reports from the Client on a more frequent basis or that include information not provided to other investors (including, without limitation, more detailed information regarding portfolio positions) and such other rights as may be negotiated by the Client and such investors. The modifications are solely at the discretion of the Client and may, among other things, be based on the size of the investor’s investment in the Client, an agreement by an investor to maintain such investment in the Client for a significant period of time, or other similar commitment by an investor to the Client.

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

The Adviser has adopted a Code of Ethics (the “Code”) that obligates the Adviser to put the interests of the Adviser’s Clients before its own interests and to act honestly and fairly in all respects in their dealings with Clients. In addition to compliance with the Adviser’s policies and procedures, all of the Adviser’s personnel are required to comply with applicable federal securities laws. Clients or prospective Clients may obtain a copy of the Code by contacting us at the address or telephone number listed on the first page of this brochure. See below for further provisions of the Code as they relate to the reporting of securities transactions by related persons.

The Adviser, in the course of its investment management and other activities, may come into possession of confidential or material nonpublic information about issuers, including issuers in which the Adviser or its related persons have invested or seek to invest on behalf of Clients. The Adviser is prohibited from improperly disclosing or using such information for its own benefit or for the benefit of any other person, regardless of whether such other person is a Client. The Adviser maintains and enforces written policies and procedures that prohibit the communication of such information to persons who do not have a legitimate need to know such information and to assure that the Adviser is meeting its obligations to its Clients and remains in compliance with applicable law. In certain circumstances, the Adviser may possess certain confidential or material, nonpublic information that, if disclosed, might be material to a decision to buy, sell or hold a security, but the Adviser will be prohibited from communicating such information to the Client or using such information for the Client’s benefit. In such circumstances, the Adviser will have no responsibility or liability to the Client for not disclosing such information to the Client (or the fact that the Adviser possesses such information), or not using such information for the Client’s benefit, as a result of following the Adviser’s policies and procedures designed to provide reasonable assurances that it is complying with applicable law.

The Adviser’s access persons are not permitted to purchase single-name securities in their personal accounts. The Adviser’s access persons must preclear certain limited offerings and initial public offerings

in their personal accounts with the Chief Compliance Officer, who may deny permission to execute the transaction if such transaction will have any adverse economic impact on one of its Clients. In addition, the Adviser's Code prohibits the Adviser or its access persons from executing personal securities transactions of any kind in any securities on a restricted securities list maintained by the Chief Compliance Officer. All of the Adviser's supervised persons are required to disclose their securities transactions on a quarterly basis. In addition, the Adviser's supervised persons are required to disclose the holdings in their personal accounts upon commencement of employment with the Adviser and on an annual basis thereafter. The Adviser's supervised persons are also required to provide monthly or quarterly brokerage statements. Trading in the personal accounts of the Adviser's supervised persons is reviewed by the Chief Compliance Officer.

To the extent that the Adviser or a related person or any personnel of the Adviser own securities that the Adviser or its related persons also recommends to clients, such clients' proxies will be voted according to predetermined guidelines rather than subject to the Adviser's (or its related person's) discretion. Please refer to Item 17 for further information regarding the Adviser's proxy voting policy and procedures.

## **Item 12. Brokerage Practices**

***Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions.*** The Adviser considers a number of factors in selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation. Such factors include, but are not limited to stability, the actual executed price and the commission, research (including but not limited to economic forecasts, fundamental and technical advice on securities, valuation advice on market analysis); custodial and other services provided for the enhancement of the Adviser's portfolio management capabilities; the size and type of the transaction; the difficulty of execution and the ability to handle difficult trades; and the operational facilities of the brokers and/or dealers involved (including back office efficiency). In selecting a broker-dealer to execute transactions (or a series of transactions) and determining the reasonableness of the broker-dealer's compensation, the Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It is not the Adviser's practice to negotiate "execution only" commission rates, thus a Client may be deemed to be paying for research, brokerage or other services provided by a broker-dealer which are included in the commission rate. The Adviser's Chief Compliance Officer and traders will meet periodically to evaluate the broker-dealers used by the Adviser to execute Client trades using the foregoing factors.

***Research and Other Soft Dollar Benefits.*** While generally not expected due to the Adviser's investment strategy, the Adviser will from time to time receive research or other products or services other than execution from a broker-dealer and/or a third party in connection with Client securities transactions. This is known as a "soft dollar" relationship. The Adviser will limit the use of "soft dollars" to obtain research and brokerage services to services that constitute research and brokerage within the meaning of Section 28(e) of the Securities Exchange Act of 1934, as amended ("Section 28(e)").

Research services within Section 28(e) may include, but are not limited to, research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts; meetings with corporate executives; consultants' advice on portfolio strategy; data services (including services providing market data, company financial data and economic data); advice from broker-dealers on order execution; and certain proxy services. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between an adviser and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self-regulatory organization such as comparison services, electronic confirms or trade affirmations.

When the Adviser uses client commissions to obtain Section 28(e) eligible research and brokerage products and services, the Adviser will periodically review and evaluate its soft dollar practices and to determine in good faith whether, with respect to any research or other products or services received from a broker-dealer, the commissions used to obtain those products and services were reasonable in relation to the value of the brokerage, research or other products or services provided by the broker-dealer. This determination will be viewed in terms of either the specific transaction or the Adviser's overall responsibilities to the accounts or portfolios over which the Adviser exercises investment discretion.

The use of Client commissions (or markups or markdowns) to obtain research and brokerage products and services raises conflicts of interest. For example, the Adviser will not have to pay for the products and services itself. This creates an incentive for the Adviser to select or recommend a broker-dealer based on its interest in receiving those products and services.

Research and brokerage services obtained by the use of commissions arising from a Client's portfolio transactions may be used by the Adviser in its other investment activities, including, for the benefit of other Client accounts. The Adviser does not seek to allocate soft dollar benefits to Client accounts proportionately to the soft dollar credits the accounts generate.

In determining whether to direct Client brokerage transactions to particular broker-dealers, the Adviser's Chief Compliance Officer and portfolio managers meet periodically to review and evaluate the soft dollar practices of the Adviser and to determine in good faith whether, with respect to any research or other products or services received from a broker-dealer, the commissions used to obtain those products and services were reasonable in relation to the value of the brokerage, research or other products or services provided by the broker-dealer.

**Brokerage for Client Referrals.** From time to time, the Adviser will participate in capital introduction programs arranged by broker-dealers, including firms that serve as prime brokers to a private fund managed by the Adviser or recommend investments in these private funds as investments to the clients of the broker-dealer. The Adviser may place client portfolio transactions with firms who have made such recommendations or provided capital introduction opportunities, if the Adviser determines that it is otherwise consistent with seeking best execution. In no event will the Adviser select a broker-dealer as a means of remuneration for recommending the Adviser or any other product managed by the Adviser (or an affiliate) or affording the Adviser with the opportunity to participate in capital introduction programs.

To the extent the Adviser manages multiple Client accounts, the Adviser anticipates purchasing or selling the same security for more than one Client at or near the same time and using the same executing broker. It is the Adviser's practice, where appropriate, to aggregate Client orders for the purchase or sale of the same security submitted at or near the same time for execution using the same executing broker. Such aggregation may enable the Adviser to obtain for Clients a more favorable price or a better commission rate based upon the volume of a particular transaction.

When an aggregated order is completely filled, the Adviser will allocate the securities purchased or proceeds of sale pro rata among the participating accounts, based on the purchase or sale order. Adjustments or changes may be made under certain circumstances, such as to avoid odd lots or excessively small allocations. If the order at a particular broker is filled at several different prices, through multiple trades, generally all such participating accounts will receive the average price and pay the average commission, subject to odd lots, rounding, and market practice. To the extent an order is price-averaged, a Client account participating in the trade may pay a higher price than if the Adviser did not aggregate the order. If an aggregated order is only partially filled, the Adviser's procedures provide that the securities or proceeds are to be allocated in a manner deemed fair to Clients. Depending on the investment strategy pursued and the type of security, this may result in a pro rata allocation to all participating Clients.

### **Item 13. Review of Accounts**

***Frequency and Nature of Review.*** Each Client will be reviewed by the Adviser's investment professionals on an ongoing basis to determine whether securities positions should be maintained in light of current market conditions. Matters to be reviewed will include specific securities held, adherence to investment guidelines and the performance of each Client.

***Factors Prompting a Non-Periodic Review of Accounts.*** Significant market events affecting the prices of one or more securities in Client accounts, changes in the investment objectives or guidelines of a particular Client or specific arrangements with particular Clients may trigger reviews of Client accounts on other than a periodic basis.

***Content and Frequency of Regular Account Reports.*** Pooled investment vehicle investors will receive reports from the Clients pursuant to the terms of each Client's offering memoranda or as otherwise described in the offering document of the Client.

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

This Item is not applicable.

### **Item 15. Custody**

The Adviser or the General Partner will be deemed to have custody of Client assets. The Adviser intends to comply with Rule 206(4)-2 under the Investment Advisers Act of 1940, as amended, by meeting the conditions of the pooled vehicle annual audit provision.

### **Item 16. Investment Discretion**

The Adviser will provide investment advisory services on a discretionary basis to Clients.

Prior to assuming full discretion in managing a Client's assets, the Adviser will enter into an investment management agreement or other agreement that sets forth the scope of the Adviser's discretion.

Unless otherwise instructed or directed by a discretionary Client, the Adviser will have the authority to determine (i) the securities to be purchased and sold for the Client account (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines), and (ii) the amount of securities to be purchased or sold for the Client account. Because of the differences in Client investment objectives and strategies, risk tolerances, tax status and other criteria, there may be differences among Clients in invested positions and securities held. The Adviser will submit an aggregated order to the Adviser's trading desk describing the allocation of securities to (or from) Client accounts for each trade/order submitted. The Adviser may consider the following factors, among others, in allocating securities among Clients: (i) a Client's investment objectives and strategies; (ii) risk profiles; (iii) tax status and restrictions placed on a Client's portfolio by the Client or by applicable law; (iv) size of the Client account; (v) nature and liquidity of the security to be allocated; (vi) size of available position; (vii) current market conditions; (viii) account liquidity, account requirements for liquidity and timing of cash flows; and (ix) amount of trade away fees or other transaction fees. Although it is the Adviser's policy to allocate investment opportunities to eligible Client accounts that have the same or substantially similar investment objectives, strategies and restrictions on a pro rata basis (based on the value of the assets of each participating account relative to value of the assets of all participating accounts), these factors may lead the Adviser to allocate securities to Client accounts in varying amounts. Even Client accounts that are typically managed on a pro rata basis may from time to time receive differing allocations of securities based on total assets of each account eligible to invest in the particular investment type (e.g., equities) divided by the total assets of all accounts eligible to invest in the particular investment.

Allocations will be made among Client accounts that have the same or substantially similar investment objectives, strategies and restrictions and are eligible to participate in initial public offerings (IPOs) and secondary offerings on a pro rata basis, except when the Adviser determines in its discretion that a pro rata allocation is not appropriate, which may include a Client's investment guidelines explicitly prohibiting participation in IPOs or secondary offerings and a Client's status as a "restricted person" under applicable regulations.

Securities acquired by the Adviser for its Clients through a limited offering will be allocated pursuant to the procedures set forth in the Adviser's allocation policy. The policy provides that the Adviser will determine the proposed allocation of limited offering securities after considering the factors described above with respect to general allocations of securities and determining those Client accounts eligible to hold such securities. Eligibility will be based on the legal status of the Clients and the Clients' investment objectives and strategies.

If it appears that a trade error has occurred, the Adviser will review the relevant facts and circumstances to determine an appropriate course of action. To the extent that trade errors occur, the Adviser's error correction procedure is to ensure that Clients are treated fairly. The Adviser has discretion to resolve a particular error in any manner that it deems appropriate and consistent with the above stated policy. In the event that a Client incurs a trade error as a result of the Adviser's violation of the standard of care that is applicable to the Client, the Adviser will reimburse the Client for losses attributable to such violation. Trade errors that do not result from the Adviser's violation of the standard of care applicable to the Client are borne by the Client. The Adviser is not responsible for the errors of other persons, including third-party brokers and custodians, unless otherwise expressly agreed to by the Adviser.

To the extent the Adviser has authority, pursuant to the investment management agreement or other governing documents of a Client, to participate in class action claims (each, a "Claim") it will do so on a case-by-case basis. Once the Adviser receives a Claim, the Adviser will determine whether any Clients or former Clients of the Adviser owned the security during the period covered by the Claim. Appropriate personnel of the Adviser will determine whether they agree with the basis of the Claim and whether or not to participate in the Claim depending upon (i) the nature of the Claim; (ii) prospects for recovery; (iii) resources required to pursue the Claim; (iv) other relevant factors pertaining to the particular Claim; and (v) any other factors that the Adviser deems relevant. To the extent the Adviser receives proceeds from a Claim on behalf of a Client, including a Client, the Adviser's general policy is that only current investors at the time of receipt of the proceeds will participate in the proceeds. The Adviser may under certain circumstances elect not to participate in the proceeds of a Claim.

#### **Item 17. Voting Client Securities**

To the extent the Adviser has been delegated proxy voting authority on behalf of its Clients, the Adviser will comply with its proxy voting policies and procedures that are designed to ensure that in cases where the Adviser votes proxies with respect to Client securities, such proxies are voted in the best interests of its Clients. The Adviser generally will vote against proposals that make it more difficult to replace members of a board of directors. For all other proposals including matters such as, without limitation, corporate events (mergers and acquisition transactions, dissolutions, conversions, or consolidations) or contested elections for directors, the Adviser will determine whether a proposal is in the best interests of the Client and may take into account the following factors, among others: (i) whether the proposal was recommended by management and the Adviser's opinion of management; (ii) whether the proposal acts to entrench existing management; (iii) whether the proposal fairly compensates management for past and future performance; and (iv) the potential effect of the vote on the value of Clients' investments.

#### **Item 18. Financial Information**

This Item is not applicable.