

Enhalus Capital, LP

**1177 Avenue of the Americas
5th Floor
New York, NY 10036**

April 2021

This “**Brochure**” provides information about the qualifications and business practices of Enhalus Capital, LP (hereinafter “**Enhalus**”, “**we**”, “**us**”, “**our**” or the “**Firm**”). If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer (“**CCO**”), Ava Ramberg, by email at ava@enhalus.com. Information in this Brochure has not been approved or verified by the U.S. Securities and Exchange Commission (the “**SEC**”) or by any state securities authority.

Enhalus has applied as an “Investment Adviser Expecting to be Eligible for Commission Registration within 120 Days” with the SEC. Registration as an investment adviser does not imply that Enhalus or any of its principals or employees possesses a particular level of skill or training in the investment advisory business or any other business.

Additional information about Enhalus is also available on the SEC's website at www.adviserinfo.sec.gov.

Item 2: Material Changes

This Brochure is Enhalus's other than annual amendment to Form ADV Part 2A reflecting Enhalus's change in address from 1214 Fifth Avenue Apartment 32A New York, NY 10029 to 1177 Avenue of the Americas 5th Floor New York, New York 10036 as of April 1, 2021. Other than this one update, there are no further material changes to report. Enhalus submitted its application for registration with the SEC with the expectation of becoming fully eligible within 120 days of active registration with the SEC. We will continue to identify and discuss all material changes in this section.

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Item 4: Advisory Business

Enhalus Capital, LP (hereinafter “**Enhalus**”, the “**Investment Manager**”, “**we**”, “**us**”, “**our**” or the “**Firm**”) is organized as a Delaware limited partnership with a principal place of business New York, New York. Enhalus is owned by Ari James Stern Press and Timothy Scott Trenary (the “**Principals**”).

Enhalus will provide discretionary investment management services to qualified investors through its private funds: Enhalus Intertidal Domestic, LP; Enhalus Intertidal Overseas, Ltd.; Enhalus Intertidal Master Fund, LP; Enhalus Low Tide Domestic, LP; Enhalus Low Tide Overseas, Ltd.; and Enhalus Low Tide Master Fund, LP.

We serve as the investment adviser, with discretionary trading authority, to private, pooled investment vehicles, the securities of which are offered through a private placement memorandum to accredited investors, as defined under the Securities Act of 1933, as amended, and qualified purchasers, as defined under the Investment Company Act of 1940, as amended. We do not tailor our advisory services to the individual needs of any particular investor.

Following registration with the SEC, Enhalus intends to manage the following private, pooled investment vehicles:

- Enhalus Intertidal Domestic, LP, a Delaware limited partnership (the “**Intertidal Onshore Fund**” or an “**Onshore Fund**”)
- Enhalus Intertidal Overseas, Ltd., a Cayman Islands exempted company (the “**Intertidal Offshore Fund**” or an “**Offshore Fund**”)
- Enhalus Intertidal Master Fund, LP, a Cayman Islands exempted partnership (the “**Intertidal Master Fund**” or a “**Master Fund**”)

The above pooled investment vehicles will be known as the “**Long Short Funds**” or the “**Intertidal Funds**”. The Intertidal Funds are Enhalus’s flagship vehicles.

Enhalus also intends to manage the “**Short Only Funds**” or the “**Low Tide Funds**”, which are comprised of the following private, pooled investment vehicles:

- Enhalus Low Tide Domestic, LP, a Delaware limited partnership (the “**Low Tide Onshore Fund**” or an “**Onshore Fund**”)
- Enhalus Low Tide Overseas, Ltd., a Cayman Islands exempted company (the “**Low Tide Offshore Fund**” or an “**Offshore Fund**”)
- Enhalus Low Tide Master Fund, LP, a Cayman Islands exempted partnership (the “**Low Tide Master Fund**” or a “**Master Fund**”)

The Intertidal Funds and the Low Tide Funds are herein each referred to as a “**Fund**” and collectively referred to as the “**Funds**”.

The Onshore Funds’ “**Limited Partners**” and the Offshore Funds’ “**Shareholders**” are hereafter collectively referred to as the “**Investors**” where appropriate.

Our investment decisions and advice with respect to the Funds are subject to each Fund’s investment objectives and guidelines, as set forth in its respective “**Offering Documents.**”

The Funds will sell Interests to U.S. persons and, possibly, a limited number of non-U.S. persons who, in all cases, qualify as **“Accredited Investors”** as defined in Rule 501(a) of Regulation D under the Securities Act, and (unless waived by its respective General Partner) **“Qualified Clients”** as defined in Rule 205-3 of the Advisers Act. For the qualifying criteria of an Accredited Investor and a Qualified Client, see the Funds’ Offering Documents. The Funds anticipate being operated as a “3(c)(1)” fund, although the General Partner, in its discretion, may elect in the future to operate the Funds as a “3(c)(7)” fund (i.e., a fund whose outstanding securities are owned exclusively by **“Qualified Purchasers”**).

The Firm also intends on managing assets for certain clients within separate accounts. The separate accounts for which the Firm provides investment advisory services are to be referred to as **“Separately Managed Accounts”**. Each Separately Managed Account Client will enter into an **“Investment Management Agreement” (“IMA”)** with the Firm. Separately Managed Accounts, together with the Funds, are herein each referred to as a **“Client”**, or collectively as **“Clients”**.

Enhalus Management GP, LLC serves as the **“Firm General Partner”** to Enhalus Capital, LP. Enhalus Intertidal GP, LLC serves as the General Partner to the Intertidal Master Fund and Intertidal Onshore Fund, and will be referred to as the **“Intertidal General Partner”**. Enhalus Low Tide GP, LLC serves as the General Partner to the Low Tide Master Fund and Low Tide Onshore Fund, and will be referred to as the **“Low Tide General Partner”**.

Collectively, the Intertidal General Partner and the Low Tide General Partner will be referred to as the **“Fund General Partners”**, and each a **“Fund General Partner”** or **“Fund GP”**.

We do not currently participate in any Wrap Fee Programs.

Currently, we do not have regulatory assets under management, but we expect to have, within 120 days of the effective date of our initial registration, client assets under management sufficient to allow us to remain eligible for registration with the SEC.

Item 5: Fees and Compensation

The fees applicable to each of the Funds are set forth in detail in the corresponding Offering Documents. A brief summary of such fees is provided below.

Management Fee

Enhalus is paid an investment management fee (“**Management Fee**”) per annum of the net asset value of the Funds.

The Funds will specify Management Fees within their respective Offering Documents, and will be negotiated by each Separately Managed Account. Management fees generally are payable by Investors quarterly, in advance, as of the beginning of each calendar quarter. In the event that a Fund is dissolved, an investor withdraws, or our advisory services are terminated prior to the end of any calendar quarter, then a proportionate amount of such management fee will be refunded to the applicable Investor(s).

The Investment Manager, in its sole discretion, may waive or modify the Management Fee for any Client or Investor.

Other Types of Fees or Expenses

Enhalus is authorized to incur and pay in the name and on behalf of the Funds all expenses which they deem necessary or advisable.

The Firm will bear its own rent, operating, utilities and similar overhead expenses, in addition to the compensation and benefits of their employees.

The Master Funds will bear, or reimburse the Investment Manager and/or the Fund General Partners for advancing, its own expenses and those of the Funds, including, without limitation, the following: (i) expenses related to the research, execution and monitoring of actual and prospective investments (whether or not consummated) and the consummation of investments, including, without limitation, the following: third-party investment sourcing fees; consulting fees; expert fees; fees and expenses of and related to obtaining research, analytics and market data (including, without limitation, third-party data sources and any information technology hardware, software and data subscriptions (such as Bloomberg and FactSet) or other technology incorporated into the cost of obtaining such research and market data); due diligence expenses including, without limitation, consulting and appraisal fees; investment- and research-related travel expenses; any outsourced trading provider fees; brokerage and prime brokerage fees, commissions and expenses (including the costs of negotiating, documenting and/or amending agreements with prime brokers, ISDAs and other agreements with trading and financing counterparties); expenses relating to borrowing securities to be sold short; clearing and settlement charges; custodial fees and expenses; bank service fees; interest expenses and other borrowing costs; fees and expenses of proxy research and voting services; broken deal expenses; fees and expenses of third-party professionals, including, without limitation, consultants, investment bankers, attorneys, accountants and service providers who, in each case, provide services to the Funds or provide services to the Firm, the Fund General Partners or the Principals of the Firm (on matters that would not have arisen but for their respective advisory relationships with the Funds); and expenses relating to engagement with a company irrespective of the outcome of such engagement, such as shareholder and management communication, soliciting proxies, hiring

proxy advisory consultants, hosting shareholder forums, hiring public relations consultants and proposing or nominating directors or executives, including sourcing, recruiting, standby and indemnification and other expenses, regardless of whether the nomination is successful; (ii) organizational fees and expenses and fees and expenses incurred in connection with the offering and sale of the Interests, including, without limitation, the following: the preparation and amendment of Private Placement Memoranda, Limited Partnership Agreements, Master Partnership Agreements, Memorandum and Articles of Association of the Offshore Feeders (if established), Investment Management Agreements and the Funds' subscription agreements; and fees and expenses of the Firm incurred in connection with "world sky" matters and private placement regimes, including the European Alternative Investment Fund Managers Directive, and Form D and blue sky and similar fees and expenses; (iii) operational expenses, including, without limitation, the following: fees and expenses relating to information technology hardware, software or other technology (including, without limitation, costs of software licensing, implementation, data management and recovery services and custom development) used to research investments, evaluate and manage risk, facilitate valuations, facilitate accounting functions, facilitate compliance with the rules of any self-regulatory organization or applicable law (including, without limitation, reporting obligations) in connection with the activities of the Funds, and facilitate and manage the order execution of securities or otherwise manage the Funds (such as portfolio management systems and order management systems); fees and expenses of third-party risk management products, models and services; third-party administrative fees and expenses, including fees and expenses of the Administrator and any middle and/or back office service provider; fees and expenses of third-party professionals, including, without limitation, consultants, valuation service providers, attorneys, accountants and tax preparers; third-party audit and tax preparation expenses; insurance expenses, including, without limitation, premiums for cybersecurity insurance and liability insurance (including directors and officers liability insurance and errors and omission insurance) covering the Funds, the Fund General Partners, the Investment Manager and the principals, officers, employees, managers, partners, members, affiliates or agents of any of the foregoing, and the directors of the Offshore Feeders (the "**Directors**") (in each case, even if such insurance covers conduct for which indemnity would not be available from the Funds); fees and expenses associated with Director meetings and meetings of the Limited Partners as a whole, including, without limitation, expenses related to the organization and conduct of such meetings (including, without limitation, travel, lodging and meal expenses), and Director fees (including registration fees); costs of preparing and distributing reports and notices to Limited Partners (including the development, implementation and maintenance of an investor electronic delivery site and/or system); entity-level taxes; fees and expenses related to compliance with applicable law and regulations in connection with the activities of the Funds, including, without limitation, any governmental, regulatory, licensing, filing, reporting or registration expenses, fees or taxes (including, without limitation, fees and expenses incurred in connection with the preparation and filing of Form PF, Section 13 filings, Section 16 filings and other similar regulatory filings for the Funds or the Firm, the Fund General Partners or the Principals on matters that would not have arisen but for their respective advisory relationships with the Funds, and any filings or reporting with respect to compliance with FATCA, AEOI (each as defined below) or similar laws enacted in other jurisdictions, as well as any foreign tax regime registrations, tax filings and associated annual fees and expenses); and any fees and expenses related to compliance with anti-money laundering laws and regulations applicable to the Funds (including AML officer fees and expenses); and (iv) extraordinary expenses, including, without limitation, the following: the costs of any litigation or investigation involving the activities of the Funds (including attorney's fees and investigative fees and expenses); the cost of settlements and indemnification expenses (including advances thereof) (for clarity, the Investment Manager and the Fund General Partners are authorized to commit the Funds to

potential indemnity obligations towards certain counterparties entering into agreements with the Funds for the provisions of services and otherwise); fees and expenses incurred in connection with any tax audit by any U.S. federal, state or local authority, including, without limitation, any related administrative settlement and judicial review; and fees and expenses incurred in connection with the reorganization, restructuring, termination, winding-up or dissolution of any of the Funds.

Organizational costs may be amortized by the Funds for tax purposes over 180 months under the U.S. Internal Revenue Code of 1986, as amended, and for accounting purposes may be amortized over sixty (60) months or such other period deemed appropriate by the General Partner in its discretion.

Generally, all expenses of the Funds will be borne by the Master Funds, other than any expenses that the Fund General Partners determine in their discretion should be allocated to a Fund. Although the Funds will generally share or be allocated the expenses of the Master Funds on a pro rata basis based on their respective ownership of each Master Fund, the economic benefit that each of the Funds receive with respect to such expenses may not be the same.

In general, each Investor will bear its proportionate share of the Fund expenses on a pro rata basis with respect to the size of such Investor's capital account(s) or with respect to the relative net asset value of the shares held by such Investor, as applicable. In addition, the Fund General Partners may allocate certain Fund expenses to a particular Investor or Investors if the Fund General Partners determine that such expenses are directly attributable to such Investor(s) (e.g., fees and expenses, including attorney's fees, incurred in connection with negotiating, documenting and/or complying with a side letter or similar agreement, or if the Funds incur an indemnity obligation or other liability owing to the activity of a particular Investor).

To the extent any expenses are incurred by the Investment Manager or the Fund General Partners on behalf of the Funds or other accounts managed by the Investment Manager, the Firm or the Fund General Partner, as applicable, will allocate such expenses among the Funds and such other Clients in a manner the Investment Manager or the Fund General Partner, as applicable, determines to be fair and equitable.

The Investment Manager and/or the Fund General Partners may, in their discretion, waive their right to be reimbursed for any of the foregoing expenses for any period of time. Any such waiver shall not require the Investment Manager or the Fund General Partners to waive their right to be reimbursed for such expenses in the future.

Neither the Firm nor its employees accept compensation, including sales charges or service fees, from any person for the sale of securities or other investment products.

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

We and our affiliates are entitled to a performance-based compensation. As a result, we and our affiliates do not face certain conflicts of interest that may arise when an investment adviser accepts performance-based fees from some clients, but not from other clients.

Performance-based allocation arrangements may create an incentive for us to recommend investments which may be riskier or more speculative than those which we would recommend under a different arrangement.

Item 7: Types of Clients

Our clients are the Funds, as described in Item 4 above, and the Funds are generally open to, among others, institutions, pension plans, endowments, high net-worth individuals, financially sophisticated individuals, and other sophisticated investors. We may also serve Separately Managed Accounts for institutional investors.

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

The descriptions set forth in this Brochure of specific advisory services that we offer to Clients, and investment strategies pursued and investments made by us on behalf of our Clients, should not be understood to limit in any way our investment activities. We may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that we consider appropriate, subject to each Client's investment objectives and guidelines as set forth in the Offering Documents. The investment strategies we pursue are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any Client will be achieved.

Investment Objective

The Firm is a fundamental research-focused investment firm that seeks to identify and sell equity and equity-related publicly traded securities short that are mispriced relative to their intrinsic value and to invest long in market correlated publicly traded securities, primarily exchange traded funds. This investment program is executed through a research process focused on business analysis, competitive dynamics, and company liquidity. The principal investment objective is to achieve absolute and relative returns through market cycles.

Risk Management

The Funds' investment program is speculative and entails substantial risks. There can be no assurance that the investment objectives of the Funds will be achieved or that the Funds will be profitable, and results may vary substantially over time. The Firm will focus on managing risk through the quality of its investment process and monitoring of investments. The Firm takes a team-based approach to investment research and encourages its investment professionals to search for disconfirming evidence and challenge investment theses. The Firm's culture supports this approach by fostering an environment of independent, skepticism, and humility to realize when our research is wrong.

Risk of Loss Factors

The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the clients advised by us. These risk factors include only those

risks we believe to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by us.

An investment involves significant risks, and is suitable only for those persons who can bear the economic risk of the loss of their entire investment, who have limited need for liquidity in their investment, and who have met the conditions set forth in the Offering Documents. There can be no assurances that we will achieve our investment objectives. An investment carries with it the inherent risks associated with investments in publicly-traded stocks and bonds, options, and related instruments, including, without limitation, the risks described below. Each prospective investor should carefully review the Offering Documents and the documents referred to herein before deciding to invest with Enhalus Capital, LP.

Investment and Trading Risks. All securities investments risk the loss of capital. The Investment Manager believes that the Clients' investment program and the Investment Manager's research techniques will moderate this risk through a careful selection of securities and other financial instruments. However, no guarantee or representation is made that the Clients' investment program will be successful or that the Clients will not incur losses. The Clients' investment program may utilize investment techniques including, but not limited to, trading in put and call options and other derivatives, the use of leverage and short sales, which in practice can, in certain circumstances, increase the adverse impact to which the Clients may be subject.

In certain transactions, Clients may not be "hedged" against market fluctuations or, in reorganization or liquidation situations, may not accurately value the assets of the subject company or the degree of legal and regulatory risk associated with investments in the securities of companies in such situations. This can result in losses, even if the proposed transaction is consummated.

The Firm will attempt to assess the foregoing risk factors, and others, in determining the extent of the position it will take in the relevant securities and the price it is willing to pay for such securities. However, such risks cannot be eliminated.

Investment Analysis. When assessing investment opportunities, the Investment Manager relies on resources that may have limited or incomplete information. In particular, the Investment Manager relies on publicly available information and data filed with various government regulators or made directly available to the Investment Manager by the issuers of securities or through sources other than the issuers. Although the Investment Manager expects that it will evaluate information and data as it deems appropriate and will seek independent corroboration when reasonably available, the Investment Manager will not evaluate all publicly available information and data and is not in a position to confirm the completeness, genuineness or accuracy of the information and data that it evaluates.

As a result, there can be no assurance that the due diligence exercise carried out by the Investment Manager will reveal or highlight all relevant facts that may be necessary or helpful in evaluating investment opportunities. Any failure to have identified the relevant facts may result in an inappropriate investment decision, which may have a material adverse effect on the value of any investment in the Funds and/or Client accounts.

Concentration of Investments. Subject to any limitations adopted by the Firm from time to time, the Clients are not restricted in the amount of its capital that it may commit to any issuer, security, industry sector or geographic region, and at times Client accounts may hold a relatively large concentration in a limited number of issuers, securities, industry sectors

and/or geographic regions. Losses incurred in connection with those investments could have a material adverse effect on Clients' overall financial condition. This is because the value of the Clients' investment portfolio will be more susceptible to any single occurrence affecting one or more of those issuers, securities, industry sectors or geographic regions than would be the case with a more diversified investment portfolio.

Equity Securities. Clients will invest in equity and equity-related securities. Equity securities fluctuate in value in response to many factors, including the activities, results of operations and financial condition of individual companies, the business market in which individual companies compete, industry market conditions, interest rates and general economic environments. In addition, events such as political instability, terrorism and natural disasters may be unforeseeable and contribute to market volatility in ways that may adversely affect Client positions.

Small to Medium Capitalization Companies. Clients may invest its assets in the stocks of companies with small- to medium-sized market capitalizations. While the Investment Manager believes these investments often provide significant potential for appreciation, these stocks, particularly smaller-capitalization stocks, involve higher risks in some respects than do investments in stocks of larger companies. For example, prices of such stocks are often more volatile than prices of large-capitalization stocks. Smaller companies often times lack the management experience, financial resources, product diversification, and competitive strength of larger companies. Furthermore, due to thin trading in some such stocks, an investment in these stocks may be more illiquid than that of larger capitalization stocks. In addition, Clients intend to engage in short sales of small- to medium-sized companies, and increases in the market prices of the securities of such companies would result in losses to Client accounts. See "*Short Sales*" below.

Fixed Income Securities. Clients may trade in bonds and may trade in other fixed income securities of U.S. and non-U.S. issuers, including, without limitation, bonds, notes and debentures issued by corporations, or debt securities issued or guaranteed by a sovereign government or one of its agencies or instrumentalities. Fixed income securities pay fixed, variable or floating rates of interest. The value of fixed income securities will change in response to fluctuations in interest rates. In addition, the value of certain fixed income securities can fluctuate in response to perceptions of credit worthiness, political stability or soundness of economic policies. Fixed income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (i.e., credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (i.e., market risk).

Clients may trade in fixed-income securities which are not protected by financial covenants or limitations on additional indebtedness. In addition, evaluating credit risk for foreign debt involves greater uncertainty because credit rating agencies throughout the world have different standards, making comparisons across countries difficult.

"High Yield" Securities. Clients may invest in "higher yielding" (and, therefore, higher risk) debt securities. Such securities are generally considered to be below "investment grade" and face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. In certain periods, there may be little or no liquidity in markets for these securities. Furthermore, it is likely that a major economic recession or financial crisis could have a materially adverse impact on the value of such securities. High yield securities have historically experienced greater default rates than has been the case for investment grade securities. The market

values of certain of these lower rated debt securities tend to reflect individual corporate developments to a greater extent than do higher rated securities, which react primarily to fluctuations in the general level of interest rates. The markets for high yield securities tend to be more volatile, less liquid and less active than those for higher-rated securities, which can adversely affect the price at which these securities can be sold and may make it impractical or impossible to sell such securities at times of market dislocation. In addition, adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the value and liquidity of these securities.

Convertible Securities. Clients may invest in convertible securities. The market value of convertible securities, as with all fixed income securities, tends to decline as interest rates increase and, conversely, tends to increase as interest rates decline. However, when the market price of the common stock underlying a convertible security exceeds the conversion price, the convertible security tends to reflect the market price of the underlying common stock. As the market price of the underlying common stock declines, the convertible security tends to trade increasingly on a yield basis and thus, may not decline in price to the same extent as the underlying common stock. If a convertible security held by a Client is called for redemption, the Client will be required to permit the issuer to redeem the security, convert it into the underlying stock or sell it to a third party. Any of these actions could have an adverse effect on the Client's ability to achieve its objective.

Leverage. The Investment Manager intends to use leverage as part of the Master Funds', and other Client account, investment programs and the amount of leverage which the Clients may have outstanding at any time may be substantial in relation to its capital. Leverage may be obtained by borrowing funds to make trades or by purchasing or entering into derivative instruments that are inherently leveraged, such as swaps, options, futures and forward contracts.

If the interest expense on borrowings were to exceed the net return on the positions acquired with borrowed funds, the Clients' use of leverage would result in a lower rate of return than if the Clients' were not leveraged. If the amount of borrowings which the Clients' may have outstanding at any one time is large in relation to its capital, fluctuations in the market value of the Clients' portfolio will have a disproportionately large effect in relation to its capital and the possibilities for profit and the risk of loss will therefore be increased. Any gains made with the additional monies borrowed will generally cause the value of the Clients' assets to rise more rapidly than would otherwise be the case. Conversely, if the investment performance of the additional monies fails to cover their cost to the Clients, the value of the Clients' assets will generally decline faster than would otherwise be the case. The amount of any borrowing may also be limited by regulations imposed by the Federal Reserve Board or by the availability and cost of credit, as well as due to overall market conditions. If, due to market fluctuations or other reasons, the value of the Clients' assets should fall below required regulatory or counterparty imposed levels, the Clients will be required to reduce its debt by selling securities in its long portfolio. The Clients may also be unable to carry-out its investment program if it is not able to obtain leverage on reasonable terms.

In the case of derivative instruments, because many derivatives are "leveraged," such instruments provide significantly more market exposure than the money paid or deposited when the transaction is entered into and, thus, a relatively small adverse market movement can not only result in the loss of the entire investment, but may also expose Clients to the possibility of a loss exceeding the original amount invested.

In addition, in transactions involving derivative instruments, counterparties and lenders will likely require the Master Funds, or other Client accounts, to post collateral to support its obligations. Should the securities and other assets pledged as collateral decline in value, or should brokers increase their maintenance margin requirements (i.e., reduce the percentage of a position that can be financed), the Clients could be subject to a “margin call” pursuant to which it must either deposit additional funds with the broker or suffer mandatory liquidation of the pledged assets to compensate for the decline in value. In the event of a precipitous drop in the value of pledged securities, the Clients might not be able to liquidate assets quickly enough to pay off the margin debt or provide additional collateral and may suffer mandatory liquidation of positions in a declining market at relatively low prices, thereby incurring substantial losses. Furthermore, secured counterparties and lenders will generally have the right to sell, pledge, rehypothecate, assign, use or otherwise dispose of collateral posted by the Clients. This could increase exposure to the risk of a counterparty default since, under such circumstances, the Clients may be unable to recover the posted collateral promptly or may be unable to recover all of the posted collateral.

The Investment Manager may engage in the trading of options on futures for the account of the Master Funds, and other Client accounts, typically for hedging purposes. If the Investment Manager, on behalf of the Clients, buys an option (either to sell or buy a futures contract or commodity), the Clients will be required to pay a “premium” representing the market value of the option. Unless the price of the futures contract or commodity underlying the option changes and it becomes profitable to exercise or offset the option before it expires, the Client may lose the entire amount of the premium.

Hedging Transactions. Clients may utilize financial instruments, both for investment purposes and for risk management purposes in order (i) to protect against possible changes in the market value of the Clients’ portfolios resulting from fluctuations in the securities markets and changes in interest rates, (ii) to protect the Clients’ unrealized gains in the value of the Clients’ portfolios, (iii) to facilitate the sale of any such investments, (iv) to enhance or preserve returns, spreads or gains on any investment in the Clients’ portfolios, (v) to hedge the interest rate or currency exchange rate on any of the Clients’ liabilities or assets, (vi) to protect against any increase in the price of any securities Clients anticipate purchasing at a later date, or (vii) for any other reason that the Investment Manager deems appropriate.

The success of Clients’ hedging strategy will depend, in part, upon the Investment Manager’s ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the portfolio investments being hedged. Since the characteristics of many securities change as markets change or time passes, the success of Clients’ hedging strategy will also be subject to the Investment Manager’s ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While Clients may enter into hedging transactions in an effort to reduce risk, such transactions may result in a poorer overall performance for the Clients than if it had not engaged in such hedging transactions. For a variety of reasons, the Investment Manager may not seek to establish a perfect correlation between the hedging instruments utilized and the portfolio holdings being hedged. Such an imperfect correlation may prevent the Clients from achieving the intended hedge or expose the Clients to risk of loss. The Investment Manager may not hedge against a particular risk because it does not regard the probability of the risk occurring to be sufficiently high as to justify the cost of the hedge, or because it does not foresee the occurrence of the risk. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the Clients’ portfolio holdings.

Short Sales. A short sale involves the sale of a security that a Client does not own in the expectation of purchasing the same security (or a security exchangeable therefor) at a later date at a lower price. To make delivery to the buyer, the Client must borrow the security and the Client is obligated to return the security to the lender, which is accomplished by a later purchase of the security by the Client. When the Client makes a short sale in the United States, it must leave the proceeds thereof with the broker and it must also deposit with the broker an amount of cash or U.S. government or other securities sufficient under current margin regulations to collateralize its obligation to replace the borrowed securities that have been sold. If short sales are effected on a foreign exchange, such transactions will be governed by local law. A short sale involves the risk of a theoretically unlimited increase in the market price of the security that would result in a theoretically unlimited loss to the Client. The extent to which the Client will engage in short sales will depend upon the Investment Manager's investment strategy and perception of market direction and the value of individual securities. The Investment Manager may engage in short sales on behalf of the Client as a hedge against potential market declines and/or based on its fundamental analysis of the subject issuers.

Call Options. There are risks associated with the sale and purchase of call options. The seller (writer) of a call option which is covered (e.g., the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security less the premium received, and gives up the opportunity for gain on the underlying security above the exercise price of the option. If the seller of the call option owns a call option covering an equivalent number of shares with an exercise price equal to or less than the exercise price of the call written, the position is "fully hedged" if the option owned expires at the same time or later than the option written. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The buyer of a call option assumes the risk of losing its entire investment in the call option.

Put Options. There are risks associated with the sale and purchase of put options. The seller (writer) of a put option which is covered (e.g., the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sales price (in establishing the short position) of the underlying security plus the premium received, and gives up the opportunity for gain on the underlying security below the exercise price of the option. If the seller of the put option owns a put option covering an equivalent number of shares with an exercise price equal to or greater than the exercise price of the put written, the position is "fully hedged" if the option owned expires at the same time or later than the option written. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option.

Foreign Investments. Clients may trade non-U.S. securities and other instruments denominated in non-U.S. currencies and/or traded outside of the U.S., as well as securities and other instruments of companies having substantial profits and/or revenues generated in non-U.S. currencies. Such transactions require consideration of certain risks not typically associated with trading in U.S. securities or other instruments. Such risks include unfavorable currency exchange rate developments, restrictions on repatriation of investment income and capital, imposition of exchange control regulation by the U.S. or foreign governments, confiscatory taxation and economic or political instability in foreign nations. In addition, there may be less publicly available information about certain non-U.S. companies than would be the case for comparable companies in the U.S., and certain non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of U.S. companies.

Transaction costs of investing in non-U.S. securities markets are generally higher than in the United States. There is generally less government supervision and regulation of exchanges, brokers and issuers outside the United States than there is in the United States. Clients might have greater difficulty taking appropriate legal action in non-U.S. courts. Non-U.S. markets also have different clearance and settlement procedures which, in some markets, could at times fail to keep pace with the volume of transactions, thereby creating substantial delays and settlement failures that could adversely affect Clients' performance.

Derivatives Generally. Derivative instruments, or "derivatives," include options, futures, swaps, structured securities and other instruments and contracts that are derived from, or the value of which is related to, one or more underlying securities, financial benchmarks, financial assets, currencies or indices. Derivatives allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark, financial asset, currency or index at a fraction of the cost of investing in the underlying asset. Clients may seek to acquire derivatives for these or other reasons, however, there is no assurance that derivatives that the Clients wish to acquire will be available at any particular times upon satisfactory terms or at all.

The value of a derivative is frequently difficult to determine and depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives of such asset. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives are "leveraged," and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement can not only result in the loss of the entire investment, but may also expose Clients to the possibility of a loss exceeding the original amount invested. Over-the-counter ("OTC") derivatives generally are not assignable except by agreement between the parties concerned, and no party or purchaser has any obligation to permit such assignments. The OTC market for derivatives is relatively illiquid. In the case of OTC derivatives contracts, Clients are subject to the credit risk of the counterparty.

A Client may take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objective of the Client and legally permissible. Special risks may apply to instruments that are invested in by the Client in the future that cannot be determined at this time or until such instruments are developed or invested in by the Client.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") enables the U.S. Commodity Futures Trading Commission (the "CFTC") and the SEC to enact new regulations on certain OTC derivatives. Under the Dodd-Frank Act and rules promulgated thereunder, certain OTC derivatives contracts are required to be traded on regulated trading platforms and cleared through registered clearing organizations subject to regulation by the SEC and the CFTC. Such contracts are traded more like futures and options contracts and parties to such transactions will trade standardized contracts and will face clearing organizations as contractual counterparties, rather than facing the credit risk of counterparties under individually negotiated bilateral OTC agreements.

In addition, swap dealers and major swap participants (entities that are not swap dealers, but are subject to rules governing dealers due to their levels of activity and exposure) are subject to regulatory oversight and requirements with respect to OTC derivatives, which will include business conduct requirements, such as know-your-customer rules, increased risk disclosure

and rules requiring trades to be documented and confirmed within certain timeframes. Derivative contracts, whether cleared or uncleared, will have to be reported to trade data repositories registered with the CFTC and/or the SEC.

While the CFTC has finalized the majority of its required rulemakings under the Dodd-Frank Act, there are still a number of rules that have not been finalized by the SEC. As a result, the effect that the foregoing regulatory changes will have on the price of derivative contracts, liquidity and administrative costs, among other things, remains unclear.

In addition, there is speculation that some or all of the Dodd-Frank Act may be repealed and/or changed. Depending upon such changes, there may be significant differences in the future with respect to the risks associated with derivatives trading. The impact of any such changes is currently unknown, and none of the Investment Manager, the Fund General Partners, or the Funds undertake to update Investors upon such changes or upon finalization of any CFTC or SEC regulations promulgated under the Dodd-Frank Act.

Risk of Default or Bankruptcy of Third Parties. Clients may engage in transactions in securities and financial instruments that involve counterparties. Under certain conditions, Clients could suffer losses if a counterparty to a transaction were to default or if the market for certain securities and/or financial instruments were to become illiquid. In addition, Clients could suffer losses if there were a default or bankruptcy by certain other third parties, including brokerage firms and banks with which Clients do business, or to which securities have been entrusted for custodial purposes. For example, if one of a Client's prime brokers or custodians were to become insolvent or file for bankruptcy, the Client could suffer significant losses with respect to any securities held by such firm.

Additionally, under CFTC regulations, "futures commission merchants" ("FCMs"), such as a Client's prime brokers, are required to maintain customers' assets in a segregated account. If a Client's FCM fails to do so, under certain circumstances, such as the inability of another customer of the FCM or the FCM itself to satisfy substantial deficiencies in the other customer's account, the Client may be subject to a risk of loss of its assets on deposit with such prime broker. In the case of any bankruptcy or customer loss, the Client might recover, even with respect to property specifically traceable to the Client, only a pro rata share of all property available for distribution to all of the FCM's customers.

Counterparty Risk. Some of the markets in which the Clients effect its transactions are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange based" markets. This exposes Clients to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Clients to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Clients have concentrated its transactions with a single or small group of counterparties. The Investment Manager is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. The ability of the Investment Manager to transact business with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Clients.

Client investment strategy requires use of transactions that expose Clients to the credit of its counterparties, and vice versa. For example, Clients will seek to borrow securities intending

to sell them short and may enter into long and short derivative positions. All of these transactions, and transactions similar to them, are governed by documents, industry standards, market customs and practices, the parties' prior course of dealing and by the covenant of good faith and fair dealing. At times, and especially in times of market stress, these credit exposures may come under stress, normal business conduct may be interrupted and normal legal protections may prove inadequate or may fail to provide timely relief. Should it become necessary to remove or reduce exposure to a particular counterparty, there can be no guarantee that a satisfactory alternative will be available, or even if one is available, that Clients will be able to avail themselves of that alternative. As a consequence, it is possible that any unwinding of the credit exposure may prove costly and thereby damage the Clients.

Currency Risks. Clients may invest in securities and other instruments denominated or quoted in currencies other than the U.S. Dollar, as well as securities and other instruments of companies having substantial profits and/or revenues generated in non-U.S. currencies. In connection therewith, the Investment Manager may hedge against the resulting currency exposure wherever economically prudent. However, changes in currency exchange rates and/or erosion of non-U.S. currencies will affect the value of the Clients' portfolio and the unrealized appreciation or depreciation of investments. Additionally, such hedging transactions may include a credit component pursuant to which the Clients' may be required to grant to its hedging counterparty a security interest in certain of its assets. Accordingly, in such a case, if the Clients default with respect to a currency hedging transaction, then the hedging counterparty could lay claim to an interest in such assets.

Further, Clients may incur costs in connection with conversions between various currencies. Foreign currency exchange dealers realize a profit based on the difference between the prices at which they are buying and selling various currencies. Thus, a dealer normally will offer to sell currency to the Clients at one rate, while offering a lesser rate of exchange should the Clients desire immediately to resell that currency to the dealer. Clients will conduct its currency exchange transactions on a spot (i.e., cash) basis at the spot rate prevailing in the currency exchange market. Clients may also take speculative positions in currencies, which will be subject to the same risks discussed above.

Purchasing Securities of Initial Public Offerings. Clients may purchase securities of companies during their initial public offerings or shortly thereafter. Special risks associated with these securities may include a limited number of shares available for trading, unseasoned trading, lack of investor knowledge of the companies and limited operating histories. These factors may contribute to substantial price volatility for the shares of these companies. The limited number of shares available for trading in some initial public offerings may make it more difficult for the Clients to buy or sell significant amounts of shares without an unfavorable impact on prevailing market prices. In addition, some companies engaged in initial public offerings are involved in relatively new industries or lines of business, which may not be widely understood by investors. Some of these companies may be undercapitalized or regarded as developmental stage companies, without revenues or operating income, or the near-term prospects of achieving them.

Price Risk. For reasons not necessarily attributable to any of the risks set forth herein (for example, supply/demand imbalances or other market forces), the prices of the securities in which Clients invest may decline or rise substantially. In particular, purchasing assets at prices that may appear to be "undervalued" is no guarantee that such assets will not be trading at even more "undervalued" levels at the time of valuation or at the time of sale. Similarly, shorting assets at prices that may appear to be "overvalued" is no guarantee that such assets

will not be trading at even more “overvalued” levels at the time of valuation or at the time of sale.

Exchange Traded Funds (“ETFs”). Clients may trade in ETFs. ETFs are generally structured to invest in all or a representative sample of the securities that generally replicate the price and yield performance of an underlying market index or sector such as a broad stock market, industry sector, domestic or international equity or fixed income, or U.S. or foreign government bond. ETF shares are traded on stock exchanges and markets at open market prices that generally track the net asset value per share of the ETF. Direct issuances and redemption of ETF shares at the ETF’s net asset value per share only occur in large blocks (or creation units) transacted between the ETF and authorized institutional purchasers on an in-kind basis. An exchange traded sector fund may be adversely affected by the performance of that specific sector or group of industries on which it is based. International investments may involve risk of capital loss from unfavorable fluctuations in currency values, differences in generally accepted accounting principles, or economic and/or political instability in other nations and/or other factors. Although index-based ETFs are designed to provide investment results that generally correspond to the price and yield performance of their respective underlying indices, ETFs may not be able to replicate exactly the performance of the indices because of their expenses and other factors. ETF shares may trade at either a discount or premium to their underlying net asset value. The purchase or sale of ETF shares on the secondary market involves the payment of brokerage commissions, and the purchase and redemption of creation units involves other transaction costs and brokerage commissions. Investors in ETFs also directly bear the ETF’s costs associated with its payment of investment management fees and fees for administrative, custodial or other services and thus the Limited Partners will indirectly incur an additional layer of fees and expenses.

Index or Index Options. The value of an index or index option fluctuates with changes in the market values of the securities included in the index. Because the value of an index or index option depends upon movements in the level of the index rather than the price of a particular security, whether Clients will realize appreciation or depreciation from the purchase or writing of options on indices depends upon movements in the level of instrument prices in the security market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular securities.

Index Futures. Clients may trade in index futures. The price of index futures contracts may not correlate perfectly with the movement in the underlying index because of certain market distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, participants may close futures contracts through offsetting transactions that would distort the normal relationship between the index and futures markets. Second, from the point of view of speculators, the deposit requirements in the futures market are less onerous than margin requirements in the securities market. Therefore, increased participation by speculators in the futures market also may cause price distortions. Successful use of index futures contracts by the Clients also is subject to the Investment Manager’s ability to correctly predict movements in the direction of the market.

Swaps. Clients may trade swaps. 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. Whether a Client’s use of swap agreements or swaptions will be successful will depend, in part, on the Investment Manager’s ability to select appropriate transactions for the Client. 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, the 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. The 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.

Foreign Exchange Contracts. Pursuant to rules promulgated under the Dodd-Frank Act, many foreign exchange contracts will be deemed "swaps" under the U.S. Commodity Exchange Act, as amended, and therefore will be subject to comprehensive regulation by the CFTC. CFTC rules will govern certain terms of such contracts, such as minimum margin requirements, among others, and dealers of such products will be subject to business conduct and reporting obligations. Foreign currency options (unless traded on a securities exchange), non-deliverable foreign exchange forwards, currency swaps and cross-currency swaps will be included in such regulation. The U.S. Treasury Department (the "Treasury") has exercised its authority to exempt foreign exchange forwards and swaps from most CFTC regulation, although such transactions remain subject to certain CFTC reporting and business conduct requirements. As a result, foreign exchange forwards and swaps are not guaranteed by an exchange or clearing house and consequently, there are no requirements with respect to financial responsibility or segregation of customer funds or positions, which could expose the Client to unanticipated losses.

Credit Default Swaps. Clients may purchase and sell credit derivatives contracts – primarily credit default swaps – both for hedging and other purposes. The typical credit default contract requires the seller to pay to the buyer, in the event that a particular reference entity experiences specified credit events, the difference between the notional amount of the contract and the value of a portfolio of securities issued by the reference entity that the buyer delivers to the seller. In return, the buyer agrees to make periodic payments equal to a fixed percentage of the notional amount of the contract. In addition, the parties may be required to post collateral to secure their obligations, which can reduce the amount of collateral or funds available for other purposes.

Clients may also purchase and sell credit default swaps on a basket of reference entities as part of a synthetic collateralized debt obligation transaction.

As a buyer of credit default swaps, Clients are subject to certain risks. In circumstances in which a Client does not own the debt securities that are deliverable under a credit default swap, the Client is exposed to the risk that deliverable securities will not be available in the market, or will be available only at unfavorable prices, as would be the case in a so-called "short squeeze." In certain instances of issuer defaults or restructurings, it has been unclear under the standard industry documentation for credit default swaps whether or not a "credit event" triggering the seller's payment obligation had occurred. In either of these cases, the Client would not be able to realize the full value of the credit default swap upon a default by the reference entity.

As a seller of credit default swaps, Clients incur leveraged exposure to the credit of the reference entity and is subject to many of the same risks it would incur if it were holding debt securities issued by the reference entity. However, a Client will not have any legal recourse

against the reference entity and will not benefit from any collateral securing the reference entity's debt obligations. In addition, the credit default swap buyer will have broad discretion to select which of the reference entity's debt obligations to deliver to the Client following a credit event and will likely choose the obligations with the lowest market value in order to maximize the payment obligations of the Client.

Options on Futures. Trading options on futures involves a high degree of risk. The risks of trading options on futures are similar to the risks of trading securities options, but often involve even greater leverage and risks. In addition, if the purchaser of an option on a futures contract exercises the option, the holder will, in effect, be buying or selling the underlying futures contract, and will then be subject to the same risks as are attendant to futures trading.

Forward Trading. The Firm may engage in forward trading on behalf of Clients, typically for hedging purposes. Forward contracts (including certain forward exchange contracts) and options thereon, unlike futures contracts, are not traded on exchanges and are not standardized; rather banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Such forward trading is largely unregulated and currently daily price movements are not limited and speculative position limits are not applicable. The principals who deal in such forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration, which could result in substantial losses to the Client account.

Commodity Trading. The prices of commodities and all derivative instruments, including futures and options prices, are highly volatile. Price movements of commodities, futures and options contracts are influenced by, among other things, changing supply and demand relationships, U.S. and non-U.S. governmental programs and policies, national and international political and economic events, interest rates and governmental monetary and exchange control programs and policies. Moreover, commodity exchanges limit fluctuations in commodity futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." During a single trading day, no trades may be executed at prices beyond the daily limit. Commodity futures prices have occasionally moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Investment Manager from promptly liquidating unfavorable positions and subject it to substantial losses. In addition, the Dodd–Frank Act significantly expands the CFTC's authority to impose broader aggregate position limits.

Interest Rate Risk. Generally, the value of fixed income securities will change inversely with changes in interest rates. As interest rates rise, the market value of fixed income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed income securities tends to increase. This risk will be greater for long-term securities than for short-term securities. Clients 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 a Client will be successful in fully mitigating the impact of interest rate changes.

Purchase of Distressed Securities. Clients may purchase securities and other obligations of companies that are experiencing significant financial or business distress, including companies involved in bankruptcy, reorganization or other liquidation proceedings. Although such investments may produce significant returns to the Clients, they involve a high degree of risk over a potentially lengthy period of time, and may provide less liquidity than many other investments. Investment in these types of securities requires sophisticated analysis and there

can be no assurance that the Clients will accurately predict various factors that could affect the prospects of a successful restructuring. Many of these investments ordinarily remain stagnant until the applicable company reorganizes and/or emerges from bankruptcy proceedings, and, as a result, may have to be held for an extended period of time.

The Dodd-Frank Act established the Orderly Liquidation Authority (the “OLA”), an insolvency regime for large, interconnected financial companies, including broker-dealers, whose failure poses a significant risk to the financial stability of the United States. Clients may invest in such large, interconnected financial companies and therefore may face losses if such financial companies are put into receivership and then liquidated upon a determination by the U.S. Federal Deposit Insurance Corporation and the board of governors of the U.S. Federal Reserve. If a financial company becomes liquidated by the OLA, a Client’s investments in such a financial company could be adversely affected. Unlike in bankruptcy proceedings, creditors, shareholders and contract counterparties will not have any input into, or advanced notice about, the liquidation or reorganization of the applicable financial company. Many of the procedural rules for the OLA have not yet been written, and it is unclear how financial companies that become subject to liquidation proceedings would be affected.

Special Situations. Clients may invest in companies involved in (or the target of) acquisition attempts or tender offers or in companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. In any investment opportunity involving any such type of special situation, there exists the risk that the contemplated transaction either will be unsuccessful, take considerable time or result in a distribution of cash or a new security the value of which will be less than the purchase price to a Client of the security or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, a Client may be required to sell its investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which a Client may invest, there is a potential risk of loss by a Client of its entire investment in such companies.

Event and Risk Arbitrage. An event and risk arbitrage position is generally taken after a merger, tender offer, exchange offer or other transaction is announced, at which point the security has generally risen to a significant premium over the market price that prevailed prior to the announcement. The difference between the price paid by a Client for securities of a company involved in an announced deal and the anticipated value to be received for such securities upon consummation of the proposed transaction will often be small. If the proposed transaction appears likely not to be consummated or, in fact, is not consummated or is delayed, the market price of the securities will usually decline sharply, usually to a level comparable to or below that which existed prior to the announcement and generally by more than a Client’s anticipated profit. Further, the Client may invest and trade in securities of companies which, although they are not the subject of an announced proposed merger or acquisition, are viewed as potential candidates for such a transaction. Either of these scenarios (non-consummation of an announced deal or non-consummation of an anticipated unannounced deal) can cause the Client to suffer a significant loss with respect to any long positions that it has established in the relevant security. Similarly, with respect to any short positions, to the extent such positions have to be covered, the Client could be adversely affected. Various events may occur which may result in a transaction not being consummated which could adversely affect the Client’s position.

Capital Structure Arbitrage. Clients may invest based on capital structure arbitrage strategies. The success of any such strategies will depend on the Investment Manager’s ability to identify and exploit inefficiencies in the pricing of credit risk within a company’s or

sovereign's capital structure. Identification and exploitation of market opportunities involve uncertainty. There can be no assurance that the Investment Manager will be able to locate investment opportunities or to correctly exploit price discrepancies. A reduction in the pricing in efficiency of the markets in which the Clients will seek to invest will reduce the scope for Clients' involvement in these strategies. In the event that the perceived mispricings underlying the Clients' positions fail to materialize, these strategies could be unsuccessful or result in losses.

PIPE Investing. Clients may from time to time make private placement investments in public companies ("PIPEs"). These are typically securities issued pursuant to Regulation D under the Securities Act to "accredited investors" such as the Master Funds. Generally, the issuer's common stock is publicly traded on a U.S. securities exchange or listed on the over-the-counter market. However, the securities acquired by the Master Funds (in the case of equity or preferred securities) or the underlying securities (in the case of warrants, options, or convertible securities) typically are unregistered and subject to re-sale restrictions, but these securities may have registration rights which generally require the issuer to register them for re-sale by the Master Funds following the date of issue. Certain convertible securities issued in these privately negotiated transactions, however, may provide for registration at a date several months in the future. Often, the issuers of PIPEs will have unstable, fluid, or weak financial positions. As a result, PIPE investments made by the Master Funds may lose some or all of their value, which could cause losses to the Master Funds.

PIPE strategies have historically been significantly more likely to be successful during periods of rising equity prices. In such conditions, not only is it easier to liquidate the equity acquired upon conversion of a Master Funds' illiquid and restricted securities, but also the equity price may increase from the date of the conversion, increasing the profit of conversion. PIPE investing also involves making capital commitments to issuers without access to traditional capital markets in situations in which the bankruptcy of the issuer could result in a total loss of the investment and thereby result in losses to the Master Funds. Analysis of the financial condition of each issuer is an important component of determining whether to make any such investment.

Investments in Private Companies. Clients may from time to time invest in private companies (i.e., companies without any publicly-traded securities). Investments in private companies are subject to various risks, including the illiquidity of the investment being made. Clients may be unable to sell its interest in a private company because there may be no market for such interests. In addition, when investing in a private company, there is no market efficiency or testing in order to determine the correct price for interests in the company. Therefore, the Clients could pay more for interests in a private company than their intrinsic value. Typically, private companies will have very limited reporting obligations, so there may be limited or no information available to investors such as the Clients regarding, among other things, a private company's business prospects and results of operations. Private companies frequently have less oversight from independent directors and regulatory agencies and have less seasoned management teams.

Loans of Securities; Pledge of Assets. Pursuant to master securities lending agreements or similar agreements, Clients may lend securities from its portfolio to brokers, dealers and financial institutions and receive collateral in the form of cash and securities in an amount equal to or greater than the current market value of the loaned securities, including any accrued interest or dividend receivable. During the term of such loan, Clients will not retain all incidents of beneficial ownership as to the loaned portfolio securities, including voting rights. It will, however, generally retain the rights to interest or other distributions, and will

have the right to regain record ownership of the loaned securities to exercise such beneficial rights. Such loans will be terminable at any time upon sufficient notice to the other party.

It should be noted that, pursuant to Clients' account agreements with prime brokers, the prime brokers may, under certain circumstances, lend Clients' securities to third parties without notice to the Clients and without providing any collateral to the Clients. If a prime broker makes such loans of securities from the Clients' account, the Clients may not be able to vote such securities. In addition, if a prime broker were to become insolvent in the United States, the Clients would not have a claim against any specific assets of such prime broker, but would have a claim against the pool of assets held for the benefit of such prime broker's customers. Jurisdictions outside of the United States may not provide any similar rights to the Clients.

Herding Risk. The substantial growth of the hedge fund industry and funds trading large highly-leveraged positions of the same nature as those held by other funds have augmented herding risks. While the Investment Manager typically strives not to invest, on behalf of the Clients, in securities and/or other instruments that are broadly followed by other funds, such funds may later discover opportunities in the same securities and/or other instruments in which the Clients has already invested. Whatever the "fair price" of a security, instrument or a relationship, its trading price is sometimes radically altered or influenced by the market activity of traders executing parallel trading programs. This factor may provide surprising and sudden losses at unpredictable times, even after long periods of calm. The negative impact of herding is greatest when markets are under stress and traders holding large leveraged positions seek to liquidate or cover positions simultaneously.

Inside Information. From time to time, the Firm and its affiliates may come into possession of inside information concerning specific companies. Under applicable securities laws, this may limit the Firm's ability to buy or sell securities, on behalf of the Clients, issued by such companies. If Clients hold the securities of a company with respect to which the Firm is in possession of inside information, the Clients may be restricted from trading the securities of such company for an indefinite period of time, which could result in losses to the Clients.

Item 9: Disciplinary Information

To the best of our knowledge, there are no legal or disciplinary events that are material to an Investor's or prospective investor's evaluation of our advisory business or the integrity of our management.

Item 10: Other Financial Industry Activities and Affiliations

Neither we nor our management persons are registered as broker-dealers, and neither of us has any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer, respectively.

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

Code of Ethics

Enhalus has adopted a "Code of Ethics" to comply with Rule 204A-1 of the Investment Advisers Act of 1940 ("Code of Ethics Rule") and to establish the high standard of conduct that we expect of our employees and procedures regarding our employees' personal trading of

securities. Our employees are required to certify their adherence to the terms set forth in the Code of Ethics upon commencement of employment and annually thereafter. Employees also are required to provide quarterly certifications of compliance with certain Code of Ethics provisions.

The foundation of our Code of Ethics is based upon the following underlying fiduciary principles:

- Employees must at all times place the interests of the Funds and Investors first;
- Employees must ensure that all personal securities transactions are conducted consistent with the Code of Ethics' Employee Personal Investment Policy (described below); and
- Employees should not take inappropriate advantage of their position at the Firm.

Employees and Covered Accounts are not permitted to maintain personal brokerage accounts for the purpose of trading short positions in single named securities except for the purpose of holding or liquidating any such holdings after the commencement of employment. Employees are permitted to maintain personal brokerage accounts for the purpose of trading single named securities, including ETFs. Employees must only transact after they receive pre-approval from the CCO. Employees and Covered Accounts are permitted to liquidate positions held at the time of employment (a "**Liquidating Trade**") subject to the CCO's pre-approval. Employees are prohibited from participating in Initial Public Offerings ("**IPOs**"). Employees are also prohibited from personally, or on behalf of a Client, purchasing or selling securities that appear on the Firm's Restricted List. Employees are permitted to trade "**Broad-based**" (as defined in the Firm's Code of Ethics) ETFs and ETNs. All other ETF and ETN transactions are subject to the CCO's pre-approval which is valid for 24-hours after the approval was granted. Approved ETF and ETN transactions are subject to a minimum holding period of at least 90 days.

Employees must obtain pre-approval from the CCO before: (i) engaging in any outside business activities; or (ii) making any private investments.

We will provide a copy of our Code of Ethics to our Investors, or any prospective investor, upon request, to be viewed on the premises.

Item 12: Brokerage Practices

Enhalus is authorized to determine the broker-dealer to be used for executing securities transaction for the Funds. In selecting broker-dealers to execute transactions, we do not need to solicit competitive bids and do not have an obligation to seek the lowest available commission cost. It is not our practice to negotiate "execution only" commission rates; therefore, the Funds may be deemed to be paying for research, brokerage or other services provided by the broker which are included in the commission rate.

We shall also have the authority to select and appoint custodians of the assets of the Funds. The Firm's authority is limited by its own internal policies and procedures and each Fund's investment guidelines.

Best Execution

In selecting an appropriate broker-dealer to effect a client trade, we seek to obtain “**Best Execution**,” meaning generally the execution of a securities transaction for a client in such a manner that a client’s total costs or proceeds in the transaction are most favorable under the circumstances. Accordingly, in seeking Best Execution, we will take into consideration the price of a security offered by the broker-dealer, as well as a broker-dealers’ full range and quality of their services including, among other things, their facilities, reliability and financial responsibility, execution capability, commission rates, responsiveness to us, brokerage and research services provided to us (for example, research ideas, analysis, and investment strategies), special execution and block positioning capabilities, clearance, and settlement and custodial services.

Soft Dollars

The Firm may use “**Soft Dollars**”. In such cases, Soft Dollar credits, generated by the Funds’ trading activities, would be used to purchase brokerage and research services or products that would otherwise have been Fund expense. We intend to keep any such arrangements within the parameters of the safe harbor of Section 28(e) of the Exchange Act.

Neither Enhalus nor any related person receives client referrals from any broker-dealer or third party. However, subject to best execution, we may consider, among other things, capital introduction and marketing assistance with respect to Investors in the Funds in selecting or recommending broker-dealers for the Funds.

The provision by a broker of research and other services and property to us creates an incentive for us to select such broker since we would not have to pay for such research and other services and property as opposed to solely seeking the most favorable execution for a client. Any research, services or property provided by a broker may benefit any client and such benefits may not be proportionate to commission dollars related to the provision of such research, services or property.

Item 13: Review of Accounts

Our Portfolio Manager and investment professionals continuously monitor and analyze the transactions, positions, and investment levels of the Funds to ensure that they conform with the investment objectives and guidelines that are stated in the Funds’ Offering Documents. In these reviews, the Firm pays particular attention to any changes in the investment’s fundamentals, overall risk management and changes in the markets that may affect price levels.

Account Reporting

We perform various periodic reviews of each client’s portfolio. Such reviews are conducted by our officers.

We will distribute an audited financial report with respect to the previous fiscal year to all Investors within 120 days of fiscal year end. We may also distribute quarterly unaudited net asset value statements, quarter-end performance reports, and a quarterly investor letter to all Investors.

Item 14: Client Referrals and Other Compensation

We do not receive economic benefits from non-clients for providing investment advice and other advisory services. Neither we nor any of our related persons, directly or indirectly, compensate any person who is not a supervised person for client referrals.

Item 15: Custody

We will be deemed to have custody of Client funds and securities because we have the authority to obtain Client funds or securities, for example, by deducting advisory fees from a Client's account or otherwise withdrawing funds from a Client's account. Account statements related to the Clients are sent by qualified custodians to Enhalus.

We will comply with Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”) (i.e., the “custody rule”) by meeting the conditions of the pooled vehicle annual audit approach. Upon completion of the relevant Fund’s annual audit by an independent auditor that is registered with, and subject to inspection by, the Public Company Accounting Oversight Board (PCAOB), we will distribute the Fund’s audited financials to Investors within 120 days of such Fund’s fiscal year end.

Item 16: Investment Discretion

We will have full discretionary investment authority with respect to the Funds, including authority to make decisions with respect to which securities to be bought and sold, as well as the amount and price of those securities.

Item 17: Voting Client Securities

In compliance with Rule 206(4)-6 of the Advisers Act (i.e., the “proxy voting rule”), we have adopted proxy voting policies and procedures. The general policy is to vote all proxy proposals, amendments, consents or resolutions (collectively, “**Proxies**”) in a prudent and diligent manner that will serve the applicable Client’s best interests and is in line with the Client’s investment objectives.

We may take into account all relevant factors, as determined by us in our discretion, including, without limitation:

- the impact on the value of the securities or instruments owned by the relevant client and the returns on those securities;
- the anticipated associated costs and benefits;
- the continued or increased availability of portfolio information; and
- industry and business practices.

Generally, clients may not direct our vote in a particular solicitation.

Clients may obtain a copy of our Proxy voting policies and our Proxy voting record upon request.

Item 18: Financial Information

We are not required to include a balance sheet for our most recent fiscal year, are not aware of any financial condition reasonably likely to impair our ability to meet contractual

commitments to Clients, and have not been the subject of a bankruptcy petition at any time during the past ten years.