



Item 1 Cover Page

HN Saltoro Capital, LP

Form ADV Part 2 Brochure

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Item 2 Material Changes

This brochure differs from the previous version, dated March 2020, in the following material respects:

- Saltoro Alpha Offshore Fund, Ltd. was dissolved; therefore, we updated our advisory business in Item 4.
- We updated our assets under management in Item 4.
- We enhance the language surrounding Brokerage Practices in Item 12.

In this item, HN Saltoro Capital, LP will periodically identify and discuss material updates to the Brochure. This is intended to inform current and prospective clients of important developments that may take place in HN Saltoro Capital, LP's business practices.

HN Saltoro Capital, LP will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge. Currently, HN Saltoro Capital, LP's Brochure may be requested by contacting Mr. Alex Gutierrez, Chief Compliance Officer at (214) 978-8139 or agutierrez@hnsaltoro.com.

Additional information about HN Saltoro Capital, LP is also available via the SEC's web site www.adviserinfo.sec.gov. The searchable IARD/CRD number for HN Saltoro Capital, LP is 164111. The SEC's web site also provides information about any persons affiliated with HN Saltoro Capital, LP who are registered, or are required to be registered, as investment adviser representatives of HN Saltoro Capital, LP.

IMPORTANT NOTE ABOUT THIS DISCLOSURE BROCHURE

This Disclosure Brochure is not:

- ***an offer or agreement to provide advisory services to any person***
- ***an offer to sell nor a solicitation of any offer to purchase any security***
- ***an offer to sell interests or shares (or a solicitation of an offer to purchase interests or shares) in any pooled investment vehicle managed by HN Saltoro Capital, LP or any of its affiliates***
- ***a complete discussion of the features, risks or conflicts associated with any security***

As required by the Investment Advisers Act of 1940, as amended, HN Saltoro Capital, LP provides this Brochure to current and prospective clients and may also, in its discretion, provide this Brochure to current or prospective investors or shareholders in a pooled investment vehicle, together with other relevant governing documents, such as the pooled investment vehicle's prospectus and statement of additional information, private placement memoranda, limited partnership agreement or offering circular, prior to, or in connection with, such persons' investment in a pooled investment vehicle.

Although this publicly available Brochure describes investment advisory services and products of HN Saltoro Capital, LP, persons who receive this Brochure (whether or not from HN Saltoro Capital, LP) should be aware that it is designed solely to provide information about HN Saltoro Capital, LP as necessary to respond to certain disclosure obligations under the Investment Advisers Act of 1940, as amended. As such, the information in this Brochure may differ from information provided in relevant governing documents. More complete information about each pooled investment vehicle is included in relevant governing documents, certain of which may be provided to current and eligible prospective investors only by HN Saltoro Capital, LP. To the extent that there is any conflict between discussions herein and similar or related discussions in any governing documents, the relevant governing documents shall govern and control.

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Item 4 Advisory Business

HN Saltoro Capital, LP (“HN Saltoro” the “Firm,” “we,” or “our”) is an investment advisory Firm which was founded in 2012 by Mr. Vishal Bhutani, the Firm’s principal owner. We provide investment management services to various clients including a private pooled investment vehicle in a master-feeder structure.

The Firm provides discretionary investment advisory and sub-advisory services to (i) private pooled investment vehicles (“Fund” or “Funds”), including Saltoro Alpha, LP, a Cayman Islands exempted company (the “Master Fund”), and Saltoro Alpha Fund, L.P., a Delaware limited partnership which invests substantially all of its assets in Saltoro Alpha, L.P. (collectively, the “Fund Clients”), and (ii) separately managed accounts of unaffiliated pooled investment vehicles (the “Managed Client Account” and collectively with the Fund Clients, the “Clients”).

The investment objectives, strategies, terms, conditions and restrictions applicable to (i) the Fund Clients are described in their respective confidential private placement memorandum and governing documents (referred to collectively as the “Offering Documents”) and (ii) the Managed Client Account are set forth in its respective investment management or sub-advisory agreement between the Managed Client Account and the Firm (the “Sub-Advisory Agreement”). An investment in a Fund Client does not, in and of itself, create an advisory or other relationship between an investor in such Fund Client and HN Saltoro. Investors generally are not permitted to impose restrictions or limitations on the management of the Fund Clients. We specialize in investing our Client’s assets in catalyst-driven investments across the capital structure of U.S. and non-U.S. issuers. Information about each Fund Client is set forth in its applicable Offering Documents. See Item 8 below.

An investment in a Fund Client does not, in and of itself, create an advisory or other relationship between an investor in such Fund Client and HN Saltoro. Investors generally are not permitted to impose restrictions or limitations on the management of the Fund Clients.

A Managed Client Account may impose investment guidelines, limitations and other restrictions or terms on the management of its Managed Account pursuant to the applicable Sub-Advisory Agreement. The Managed Client Account may also have certain portfolio liquidity, concentration and exposure (or other) limits, in addition to being prohibited from trading specified instruments, without the prior written consent of the underlying investment manager of such Managed Client Account.

Regulatory Assets Under Management

As of December 31, 2020, HN Saltoro managed approximately \$176,036,590 of advisory assets, all of which were on a discretionary basis.

Item 5 Fees and Compensation

Advisory Fees

In consideration for our advisory services, we typically receive a management fee from each Fund Client based on a percentage of the Master Fund's assets. The fees and expenses applicable to the Fund Client is set forth in detail in the respective offering document and the fees and expenses applicable to the Managed Client Account is set forth in the Sub-Advisory Agreement. However, a summary of our fee schedule is set out below.

Master Fund Asset-Based Management Fee:

Founders' Series 1: HN Saltoro receives a management fee equal to 1.0% per annum of each Founders' Series 1 investor's capital account balance.

Founders' Series 2 and Series A: HN Saltoro receives a management fee equal to 1.25% per annum of each Founders' Series 2 and Series A investor's capital account balance.

Founders' Series 1 and Founders' Series 2 and Series A, noted above, are no longer available for subscription. HN Saltoro created a new series, Series B Interests in the Fund.

Series B-1 Interests, Series B-2 Interests and Series B-3 Interests: The Fund is currently offering for subscription Series B-1 Interests pursuant to its Private Placement Memorandum until the net asset value of the Fund first exceeds \$250,000,000 as of the first day of a calendar month. The Fund intends to then offer Series B-2 Interests until the net asset value of the Fund first exceeds \$500,000,000 as of the first day of a calendar month. Thereafter, the Fund intends to offer Series B-3 Interests until the General Partner (in its capacity as general partner of the Fund) otherwise determines in its sole discretion. The Series B-1 Interests, Series B-2 Interests and Series B-3 Interests are hereinafter collectively referred to as the "Series B Interests".

With respect to the Series B-1 Interests, the Management Fee will be equal to an annual rate of 1.5% of each applicable Limited Partner's Capital Account balance until the net asset value of the Fund first exceeds \$500,000,000 as of the first day of a calendar month, and, thereafter, 1% of each such Limited Partner's Capital Account balance. With respect to the Series B-2 Interests, the Management Fee is equal to an annual rate of 1.5% of each applicable Limited Partner's Capital Account balance until the net asset value of the Fund first exceeds \$500,000,000 as of the first day of a calendar month, and, thereafter, 1.25% of each such Limited Partner's Capital Account balance. With respect to the Series B-3 Interests, the Management Fee is equal to an annual rate of 1.5% of each applicable Limited Partner's Capital Account balance. HN Saltoro may reduce or eliminate the Management Fee with respect to any Limited Partner in its sole discretion. For its services to the Master Fund, the Investment Manager is entitled to a monthly management fee, which is calculated and paid in advance as of the first day of each calendar month by the Master Fund.

The management fee described above is deducted from the Master Fund's account monthly in advance. Because the Investors can only redeem shares at the close of a quarter, they will not pay a management fee in excess of what they owe.

Except under certain limited circumstances, HN Saltoro's fees are generally not negotiable. The Fund Client bears all of its own organizational, operational, and investment related expenses. For more information on brokerage transactions and costs, please see *Item 12: Brokerage Practices*

In addition to HN Saltoro's investment management fee, Clients may incur operating and transaction fees, costs and expenses associated with maintaining their accounts imposed by custodians, brokers, futures commission merchants, prime brokers and other third parties. Examples of these charges include but are not limited to custodial fees, margin, "mark-ups" and "mark-downs" on trades, odd-lot differentials, transfer taxes, handling charges, exchange fees (including foreign currency exchange fees), interest to cover short positions, wire transfer fees, electronic fund fees, conversion fees for American Depositary Receipts ("ADRs") and other fees and taxes on brokerage accounts and securities transactions. HN Saltoro does not receive any portion of these commissions, fees or costs. To the extent HN Saltoro should act as a sub-adviser, HN Saltoro will receive a portion of the management fee the end Clients pay to the adviser; these Clients do not pay any fees, commissions or expenses directly to HN Saltoro.

Managed Client Account:

With respect to the Managed Client Account, there is no standard fee schedule. The fees are negotiated on a client-by-client basis and reflected in the respective Sub-Advisory Agreement.

For an additional discussion of brokerage and other transaction costs, please refer to *Item 12 – Brokerage Practices* of this Brochure.

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

We receive performance-based compensation from our Clients. Our affiliate, HN Saltoro GP, LLC (the “General Partner”), receives a performance-based compensation (“Performance Allocation”) from the Fund Clients as profit-sharing allocations.

Master Fund Performance Allocation:

Founders’ Series 1: The General Partner receives 10% annually of net realized and unrealized profits for the year attributable to a Founders Series 1 Investor, subject to a loss carryforward requirement or “high water mark.”

Founders’ Series 2 and Series A: The General Partner receives 15% annually of net realized and unrealized profits for the year attributable to a Founders Series 2 and Series A Investor, subject to a loss carryforward requirement or “high water mark.”

Series B-1 Interests, Series B-2 Interests and Series B-3 Interests: The General Partner receives 20% annually of net realized and unrealized profits for the year attributable to a Series B Investor, subject to a loss carryforward requirement or “high water mark.”

The Performance Allocation is calculated and charged to each Limited Partner as of the last day of each calendar year. The Performance Allocation is also calculated and charged with respect to any Limited Partner permitted or required to withdraw as of any time other than the last day of each calendar year on the basis of net profits allocated to such Limited Partner through the Withdrawal Date (as defined in the Private Offering Memorandum). In the case of a partial withdrawal, the Performance Allocation is calculated and charged only with respect to the portion of the Capital Account being withdrawn. The Performance Allocation with respect to any Limited Partner may be waived or altered by the General Partner in its sole discretion. A loss carryforward or “high water mark” ensures that we only receive performance compensation when an Investor’s account value for the year has recovered any losses from prior years.

We deduct our performance-based compensation described above from the Master Fund’s account at the end of each year, or whenever an Investor redeems, but only on the withdrawn or redeemed amount.

The existence of the performance-based compensation may create an incentive for HN Saltoro to make riskier or more speculative investments. HN Saltoro does not favor any Client over another in the allocation of investment opportunities.

Item 7 Types of Clients

As discussed in *Item 4 – Advisory Business* of this Brochure, HN Saltoro currently provides investment management services, as an investment adviser to various clients including a private pooled investment vehicle in a master-feeder structure and a Managed Client Account. Investors in the Fund Clients may include high net worth individuals and other institutional investors meeting the terms of the exceptions and exemptions under which the Fund Client operates. Although we have the authority to accept subscriptions for a lesser amount, the required minimum investment in the Fund Client is generally \$1,000,000. Please review the Fund Client offering documents for more information pertaining to investor suitability.

The Managed Client Account is required to enter into the Sub-Advisory Agreement that sets forth the nature and scope of the investment advisory authority of the Firm and the investment objectives, guidelines and restrictions that are applicable to the management of the Managed Client Account. HN Saltoro does not have a minimum account size for Managed Client Accounts. The account size is subject to the Firm's discretion.

HN Saltoro may waive these requirements based on certain criteria as described in *Item 5 – Fees and Compensation* and, in its sole discretion, reserves the right to decline any account. HN Saltoro also reserves the right to close any account which falls below the minimum requirements to establish an account due to Client activity or as a result of market movement. HN Saltoro may seek to obtain, verify, and record information that identifies each Client who retains HN Saltoro to manage its account or who invests in a pooled investment vehicle managed by HN Saltoro, in order to help the U.S. Government, fight the funding of terrorism and money laundering activities.

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

Investing in securities involves risk of loss that Clients should be prepared to bear.

Investment Strategies

Our investment objective is to achieve superior risk-adjusted total returns on behalf of our Clients through catalyst-driven investments across the capital structure of U.S. and non-U.S. issuers. We will invest in issuers that we believe are or will be impacted by corporate events, actions, activities or other catalysts. Potential securities in which we may invest include, but are not limited to: equities, equity derivatives, bank loans, corporate bonds, credit derivatives, swaps, structured products and other derivative instruments. The investments made on behalf of our Clients may be in North America, Europe, Asia, South America, Sub-Saharan Africa and Australasia and may be in U.S. dollars as well as non-U.S. dollars.

As financial markets and products evolve, HN Saltoro may invest in other instruments or securities, whether currently existing or developed in the future, when consistent with Client guidelines, objectives, and policies. Within that framework, Client objectives and unique circumstances may dictate that short-term positions be taken.

Investment Framework

Philosophy and Context

We seek to identify issuers that experience a surplus or deficit of cash and/or liquid assets and will have catalysts that cause those assets to be redistributed through the capital structure. We then take a long position in the segment of the capital structure that will benefit from that redistribution, or a short position in the segment that will be impaired. Where appropriate, investments may be combined with systematic hedging of relevant market risks.

Targeted Investment Opportunities

We believe that significant corporate events, actions and/or market trading activities often create asymmetric returns within an issuer's securities. Such events include:

- Security exchanges;
- Stock repurchases;
- Capital markets activity;
- Defaults and covenant breaches;
- Dividends;
- Debt maturities and calls;
- Mergers and acquisitions;
- Bankruptcy filings;
- Asset sales and spin-offs; and
- Restructurings and recapitalizations.

Investments on behalf of our Clients will largely be comprised of situations in which we believe the securities tend to be inefficiently priced or otherwise underappreciated in the market.

As noted in *Item 4 – Advisory Business* of this Brochure, HN Saltoro manages Client's accounts in accordance with the terms, conditions, investment objectives and guidelines and limitations set forth in the investment management agreement entered into with each Client.

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The methods of analysis and investment strategies summarized above are not intended to be comprehensive. For more information regarding the investment objective and strategies of each, please carefully review its applicable governing documents.

Certain Risk Factors

Clients should understand that all investment strategies and the investments made when implementing those investment strategies involve risk of loss and Clients should be prepared to bear the loss of assets invested. There can be no assurance that Clients will achieve their investment objectives or that investments will be successful or profitable. The investment performance and the success of any investment strategy or particular investment can never be predicted or guaranteed, and the value of a Client's investments fluctuates due to market conditions and other factors. Nothing in this Brochure is intended to imply, and no one is or will be authorized to represent, that HN Saltoro's investment strategies and services are low risk or risk free. The investment decisions made, and the actions taken for Clients accounts are subject to various market, liquidity, currency, economic and political risks, and will not necessarily be profitable. Past performance of Clients accounts is not indicative of future performance. Investors and advisory Clients are urged to consult with their own independent financial, legal and tax advisors before making any investment decisions. This Brochure does not include every potential risk associated with an investment strategy, or all of the risks applicable to a particular Client account. Rather, it is a general description of the nature and risks of the strategies and securities and other financial instruments in which Client accounts may invest. The following risks may apply to strategies managed by HN Saltoro:

- **Market Conditions.** Developments in the global financial markets illustrate that the current environment is one of extraordinary and possibly unprecedented uncertainty. In light of market turmoil and the overall weakening of the financial services industry, the Clients, its prime broker(s) and other financial institutions' financial condition may be adversely affected, and they may become subject to legal, regulatory, reputational and other unforeseen risks that could have a material adverse effect on the Clients' business and operations. Moreover, market conditions have substantially reduced the availability of credit, which may have a material adverse effect on the Clients' ability to achieve its investment objective with respect to any particular investment and/or the Clients' entire portfolio, which could have a material adverse effect on the Fund's overall return objectives.
- **Leverage.** Subject to applicable margin and other limitations, the Clients may borrow funds in order to make additional investments and thereby increase both the possibility of gain and risk of loss. Consequently, the effect of fluctuations in the market value of the Clients' portfolio would be

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amplified. Interest on borrowings will be a portfolio expense for the Clients and will affect the operating results of the Clients. Also, the Clients could potentially create leverage via the use of instruments such as options and other derivative instruments. The Clients may, under some circumstances, be required to liquidate assets to service its interest and principal obligations. If loans to the Clients are collateralized with assets which decrease in value, the Clients may be obligated to pledge additional collateral to a lender in the form of cash or securities to avoid liquidation of the existing collateral. Moreover, if the assets under management are insufficient to pay the principal of, and interest on, the debt when due, the Clients could sustain a total loss of its investment. The rights of lenders to the Clients to receive payments of interest on and repayments of principal of their loans, and their rights in and to the Clients' assets, will be senior to the rights of the Partners.

- *Interest Rate Fluctuations.* The prices of portfolio investments tend to be sensitive to interest rate fluctuations and unexpected fluctuations in interest rates could cause the corresponding prices of the long and short portions of a position to move in directions which were not initially anticipated. In addition, interest rate increases generally will increase the interest carrying costs to the Clients of borrowed securities and leveraged investments.
- *Derivatives.* Derivative instruments, or “derivatives,” include futures, options, 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, currencies or indices. Derivatives allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark currency or index at a fraction of the cost of investing in the underlying asset. The value of a derivative 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 the Clients to the possibility of a loss exceeding the original amount invested. Derivatives may also expose investors to liquidity risk, as there may not be a liquid market within which to close or dispose of outstanding derivatives contracts, and to counterparty risk. The counterparty risk lies with each party with whom the Clients contracts for the purpose of making derivative investments (the “**Counterparty**”). In the event of the Counterparty's default, the Clients will only rank as an unsecured creditor and risk the loss of all or a portion of the amounts it is contractually entitled to receive.
- *Counterparty Creditworthiness.* In addition to the exchange-traded and exchange-cleared options contracts, the Clients may also invest in the over the counter (“**OTC**”) market in contracts that involve dealing with Counterparties and their ability to meet the terms of the contracts. In particular, the Clients may enter into repurchase agreements, forward contracts and swap arrangements, each of which expose the Clients to credit risk to the extent that the Counterparty defaults on its obligations to perform under the relevant contract.
- *Options.* Investing in options can provide a greater potential for profit or loss than an equivalent investment in the underlying asset. The value of an option may decline because of a change in the value of the underlying asset relative to the strike price, the passage of time, changes in the

market's perception as to the future price behavior of the underlying asset, or any combination thereof. In the case of the purchase of an option, the risk of loss of an investor's entire investment (i.e., the premium paid plus transaction charges) reflects the nature of an option as a wasting asset that may become worthless when the option expires. Where an option is written or granted (i.e., sold) uncovered, the seller may be liable to pay substantial additional margin, and the risk of loss is unlimited, as the seller will be obligated to deliver, or take delivery of, an asset at a predetermined price which may, upon exercise of the option, be significantly different from the market value.

- **Short Sales.** The Clients may enter into transactions, known as "short sales," in which it sells a security it does not own in anticipation of a decline in the market value of the security. Short sales by the Clients that are not made "against the box" theoretically involve unlimited loss potential since the market price of securities sold short may continuously increase. The Clients may mitigate such losses by replacing the securities sold short before the market price has increased significantly. Under adverse market conditions, the Clients might have difficulty purchasing securities to meet its short sale delivery obligations and might have to sell portfolio securities to raise the capital necessary to meet its short sale obligations at a time when fundamental investment considerations would not favor such sales.
- **Fixed Income Securities.** Fixed-income securities provide periodic returns and the eventual return of the principal at the end of the term. The value of fixed-income securities changes in response to interest rate fluctuations and market perception of the issuer's ability to pay off its obligations. Fixed-income securities are subject to the risk that their issuer may be unable to make interest or principal payments on its obligations.
- **Distressed Debt and Securities.** Distressed debt refers to bonds and other forms of securities issued by a company that is undergoing bankruptcy or reorganization or is likely to do so in the near future. Distressed bonds will often have low ratings, as discussed above. The debt securities of distressed corporations are sometimes overly discounted by the market, as risk adverse investors tend to sell securities due to an actual or potential bankruptcy filing. These situations can create attractive buying opportunities for investors specializing in valuing distressed securities. The Investment Manager may purchase these instruments on behalf of the Clients with the anticipation that the company will emerge from its financial difficulties and become profitable again. In the interim, the purchase of the debt may allow the shareholders or bondholders to participate actively in the process of reorganizing the company as it attempts to position itself for a return to profitability. The risk of investing in distressed debt and securities is that the subject company's projected performance never takes place. When this is the case, the securities bought on behalf of the Clients may become worth less than the amount initially paid for them, resulting in a loss. In addition, when investing in distressed debt, the amount and timing of payments, if any, by the debtor can be uncertain. Receiving late or incomplete loan payments can adversely affect the Clients' return.
- Significantly, on the Clients' behalf, the Investment Manager may participate more actively in the affairs of a distressed issuer than is typical of investors. A heightened level of involvement may make the Clients more vulnerable to litigation risks or prevent them from being able to sell their securities at certain times.

- *Potential Involvement in Litigation.* As a result of the Clients' activities generally, including possible investments in distressed investments and the possibility that the Investment Manager may participate in restructuring activities, it is possible that the Clients may become involved in litigation, including litigation respecting creditor disputes and similar issues among classes of claimants. Litigation entails expense and the possibility of counterclaims against the Clients including the General Partner and the Investment Manager and ultimately judgments may be rendered against the Clients for which the Clients does not carry insurance. Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions which may be contrary to the interests of the Clients. Furthermore, there are instances where creditors and equity holders lose their ranking and priority as such if they are considered to have taken over management and functional operating control of a debtor.
- *High Yield, Low or Unrated Securities.* The Clients may invest in "high yield" bonds and preferred stock or unrated debt securities which are unrated or rated in the lower categories by the various credit rating agencies. Securities in the lower 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 or 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 of 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.
- *Defaulted Securities.* The Clients may invest in the securities of companies involved in bankruptcy proceedings, reorganizations and financial restructurings and may have a more active participation in the affairs of the issuer than is generally assumed by an investor. This may subject the Clients to litigation risks or prevent the Clients from disposing of securities. In a bankruptcy or other proceeding, the Clients as a creditor may be unable to enforce its rights in any collateral or may have its security interest in any collateral challenged, disallowed or subordinated to the claims of other creditors. While the Clients will attempt to avoid taking the types of actions that would lead to equitable subordination or creditor liability, there can be no assurance that such claims will not be asserted or that the Clients will be able to successfully defend against them.
- *Post-Reorganization Securities.* Post-reorganization securities typically entail a higher degree of risk than investments in securities of companies which have not undergone a reorganization or restructuring. Moreover, post-reorganization securities can be subject to heavy selling or downward pricing pressure after the completion of a bankruptcy reorganization or restructuring. If the Investment Manager's evaluation of the anticipated outcome of an investment situation should prove incorrect, the Clients could experience a loss.
- *Convertible Instruments.* The Clients may invest in convertible instruments. A convertible instrument is a bond, debenture, note, preferred stock or other security that may be converted into or exchanged for a prescribed amount of common stock of the same or a different issuer within a

particular period of time at a specified price or formula. Convertible debt instruments have characteristics of both fixed income and equity investments. The Clients may invest in convertible instruments that have varying conversion values. If a convertible instrument held by the Clients is called for redemption, the Clients will be required to permit the issuer to redeem the instrument, or convert it into the underlying stock, and will hold the stock to the extent that the Investment Manager determines that such equity investment is consistent with the investment objective of the Clients.

- Convertible bonds are bonds that can be converted into or exchanged for a specified amount of common stock of the same or a different issuer within a particular period of time at a specified price or formula. The holder of a convertible bond typically receives interest or a dividend until the security matures or is converted or exchanged. Convertible bonds are unique in that they generally (1) have higher yields than common stocks, but lower yields than comparable non-convertible securities; (2) are less subject to fluctuation in value than the underlying security due to their fixed-income characteristics; and (3) provide potential for capital appreciation if the market price of the underlying security increases.
- Convertible bonds may be subject to redemption at the issuer's option. If the Clients hold a convertible bond that its issuer redeems, this could adversely affect the Clients' ability to achieve its investment objective.
- The value of a convertible security is a function of its "investment value" and its "conversion" value. A convertible security's investment value is determined by its yield in comparison to yields of other securities of comparable maturity and quality that do not have a conversion privilege. Changes in interest rates influence a convertible security's investment value. Investment values decline as interest rates increase and vice versa. The issuer's credit standing, and other factors may also affect the convertible security's investment value. A convertible security's conversion value is determined by the market price of the underlying security. If the conversion value is low relative to the investment value, then the investment value principally governs the price of the convertible security. As the market price of the underlying security approaches or exceeds the conversion price, the conversion value will increasingly influence the price of the convertible security.
- Convertible securities may be convertible only upon the occurrence of certain contingencies. If these contingencies fail to occur, this could also adversely affect the Clients' ability to achieve its investment objective.
- Convertible bonds may be subject to redemption at the issuer's option. If the Clients hold a convertible bond that its issuer redeems, this could adversely affect the Clients' ability to achieve its investment objective. Convertible securities may be convertible only upon the occurrence of certain contingencies. If these contingencies fail to occur, this could also adversely affect the Clients' ability to achieve its investment objective.
- *General Risks of Investments in Collateralized Debt Obligations.* The value of collateralized debt obligations, including collateralized loan obligations ("**CDOs**"), generally will fluctuate with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related CDO ("**CDO Collateral**"), general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in

prevailing interest rates. Consequently, holders of CDOs must rely solely on distributions on the CDO Collateral or proceeds thereof for payment in respect thereof. If distributions on the CDO Collateral are insufficient to make payments on the CDOs, no other assets will be available for payment of the deficiency and, following realization of the CDOs, the obligations of such issuer to pay such deficiency generally will be extinguished.

- Issuers of CDOs may acquire interests in loans and other debt obligations by way of sale, assignment or participation. The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the loan or debt obligation; however, its rights can be more restricted than those of the assigning institution.
- CDO Collateral may consist of high yield debt securities, loans, high grade “IG,” high yield bonds, high yield loans, asset-backed securities, and other instruments, which often are rated below investment grade (or of equivalent credit quality). High yield debt securities generally are unsecured (and loans may be unsecured) and may be subordinated to certain other obligations of the issuer thereof. The lower ratings of high yield securities and below investment grade loans reflect a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the related issuer or obligor to make payments of principal or interest. Such investments may be speculative.
- *Subordination of CDO Debt and CDO Equity.* The Master Fund’s portfolio may consist of CDO equity and subordinated CDO debt. Subordinated CDO debt generally is fully subordinated to the related CDO senior tranches. CDO equity generally is fully subordinated to any related CDO debt. To the extent that any losses are incurred by a CDO in respect of its related CDO Collateral, such losses will be borne first by the holders of the related CDO equity, next by the holders of any related subordinated CDO debt and finally by the holders of the related CDO senior tranches. In addition, if an event of default occurs under the governing instrument or underlying investment, as long as any CDO senior tranches are outstanding, the holders thereof generally will be entitled to determine the remedies to be exercised under the instrument governing the CDO. Remedies pursued by such holders could be adverse to the interests of the holders of any related subordinated CDO debt and/or the holders of the related CDO equity, as applicable.
- *Illiquidity of CDOs Owned by the Master Fund.* The value of CDOs will fluctuate with, among other things, changes in the market rates of interest, general economic conditions, economic conditions in particular industries, the condition of financial markets and the financial condition of the related CDOs. In addition, the lack of an established, liquid secondary market for some CDOs (CDO equity securities in particular) may have an adverse effect on the market value of those CDOs and will in most cases make it difficult to dispose of such CDOs at market or near market prices. Additionally, the public markets for high yield corporate debt securities have experienced periods of volatility and periods of reduced liquidity and CDOs will be subject to certain other transfer restrictions that may contribute to illiquidity. Therefore, if the Master Fund decides to dispose of any particular CDO, no assurance can be given that it will be able to dispose of such CDO at the prevailing market price, if at all. Such illiquidity may adversely affect the price and timing of liquidations of CDO securities by the Master Fund.

- *Credit Default Swaps.* A credit default swap (“**CDS**”) is a swap contract in which the buyer of the CDS makes a series of payments to the seller and, in exchange, receives a payoff if the underlying credit instrument (typically a bond or loan) experiences a negative credit event, for example, a default, restructuring, or bankruptcy. Generally, an investor would buy a CDS if it expects the underlying credit to deteriorate and would sell a CDS if it expects the underlying credit to improve.
- CDS contracts have been compared with insurance, because the buyer pays a premium and, in return, receives a sum of money if one of the events specified in the contract occurs. However, there are a number of differences between CDS and insurance, for example:
 - the buyer of a CDS does not need to own the underlying security or other form of credit exposure; in fact, the buyer does not even have to suffer a loss from the negative credit event. In contrast, a buyer of traditional insurance, must have an insurable interest such as owning a debt obligation;
 - the seller of a CDS need not be a regulated entity;
 - the seller of a CDS is not required to maintain any reserves to pay off buyers, although major CDS dealers are subject to bank capital requirements;
 - in the United States, CDS contracts are generally subject to mark to market accounting and to collateral calls.
- *Arbitrage Strategies Risk.* Arbitrage strategies attempt to take advantage of perceived price discrepancies of identical or similar financial instruments, on different markets or in different forms. Examples of arbitrage strategies include event-driven arbitrage, merger arbitrage, capital structure arbitrage, convertible arbitrage, fixed income or interest rate arbitrage, statistical arbitrage, debt spread arbitrage and index arbitrage. The Investment Manager may employ any one or more of these arbitrage strategies. If the requisite elements of an arbitrage strategy are not properly analyzed, or unexpected events or price movements intervene, losses can occur which can be magnified to the extent the Clients are employing leverage. Moreover, arbitrage strategies often depend upon identifying favorable “spreads,” which can also be identified, reduced or eliminated by other market participants.
- *Portfolio Turnover.* The investment strategy of the Clients may require the Investment Manager to actively trade the Master Fund’s portfolio, and as a result, turnover and brokerage commission expenses of the Master Fund may significantly exceed those of other investment entities of comparable size.
- *Small to Medium Capitalization Companies.* The Clients may invest a portion of 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, those 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. In addition, due to thin trading in some such stocks, an investment in these stocks may be more illiquid than that of larger capitalization stocks.
- *Suspensions of Trading.* Each securities exchange typically has the right to suspend or limit trading in all securities which it lists. Such a suspension involving securities owned by the Clients would

render it impossible for the Clients to liquidate positions and, accordingly, could expose the Clients to losses.

- *Non-U.S. Securities.* Investments in non-U.S. securities involve certain factors not typically associated with investing in U.S. securities, such as risks relating to (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar (the currency in which the books of the Clients are maintained) and the various foreign currencies in which the Clients' portfolio securities will be denominated, and costs associated with conversion of investment principal and income from one currency into another; (ii) differences between the U.S. and non-U.S. securities markets, including the absence of uniform accounting, auditing and financial reporting standards and practices and disclosure requirements, and less government supervision and regulation; (iii) political, social or economic instability; (iv) imposition of non-U.S. income, withholding or other taxes; and (v) the extension of credit, especially in the case of sovereign debt.
- *Currency Risk.* The Clients invest its capital in, among other things, securities denominated in currencies other than the U.S. dollar and in other financial instruments the prices of which are determined with reference to currencies other than the U.S. dollar. The Clients value its securities and other capital in U.S. dollars and may hedge its currency exposure. However, to the extent that currency risk is unhedged, the value of the Clients' capital will fluctuate with the U.S. dollar exchange rate, as well as with price changes of the Clients' investments in various local markets and currencies. Thus, an increase in the value of the U.S. dollar compared to the other currencies in which the Clients make its investments will reduce the effect of increases and magnify the U.S. dollar equivalent of the effect of decreases in the prices of the Clients' securities in their local markets. Conversely, a decrease in the value of the U.S. dollar will have the opposite effect of magnifying the effect of increases and reducing the effect of decreases in the prices of the Clients' non-U.S. dollar securities. The Clients also may utilize forward currency contracts and options to the hedge against currency fluctuations, but there can be no assurance that such hedging transactions will be effective.
- *Investment in Distressed Companies.* The fact that certain of the companies in whose securities the Clients may invest are in transition, out of favor, financially leveraged or troubled or potentially troubled, and may be or have recently been involved in major strategic actions, restructurings, bankruptcy, reorganization or liquidation, means that their securities are likely to be particularly risky investments, although they also may offer the potential for correspondingly high returns. Such companies' securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to the Clients' investment in any instrument, and some of the obligations and preferred stock in which the Clients invest may be less than investment grade.
- *Investing in Loans Generally:* When investing in any type of loan, there is always the risk that a borrower made a material misrepresentation or omission in the process of obtaining the loan. This inaccuracy or incompleteness can adversely affect the valuation of the collateral underlying the loan and/or can adversely affect the Clients' ability to perfect or effectuate a lien on the collateral securing the loan.

- *Lending Risks.* The Clients may purchase assignments and participations in syndicated leveraged loans. Such activities entail the following risks:
 - *General Credit Risks.* The Clients may be exposed to losses resulting from default and foreclosure. The value of the underlying collateral, if any, the creditworthiness of the borrower and the priority of the lien are each of great importance (although the Clients may invest in subordinate or second priority liens). There is no assurance that the Clients will correctly evaluate the value of the assets collateralizing the loans or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which the Clients have an investment, the Clients may lose all, or part of the amounts advanced to the borrower. The Clients cannot guarantee the adequacy of the protection of the Clients' interests, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, the Clients cannot assure that claims may not be asserted that might interfere with enforcement of the Clients' rights. In the event of a foreclosure, the Clients or an affiliate of the Clients may assume direct ownership of the underlying asset. The liquidation proceeds upon sale of such asset may not satisfy the entire outstanding balance of principal and interest on the loan, resulting in a loss to the Clients. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss.
 - *Lower Credit Quality Loans.* There are no restrictions on the credit quality of the Clients' loans. Loans invested in by the Clients may be deemed to have substantial vulnerability to default in payment of interest and/or principal. Certain of the loans in which the Clients may invest may have large uncertainties or major risk exposures to adverse conditions and may be considered to be predominantly speculative. Generally, such loans offer a higher return potential than better quality loans but involve greater volatility of price and greater risk of loss of income and principal. The market values of certain of these loans also tend to be more sensitive to changes in economic conditions than better quality loans. In certain instances, loans may lack liquid markets.
 - *Equitable Subordination.* Lenders to companies operating in workout modes or under Chapter 11 of the Bankruptcy Code are, in certain circumstances, subject to certain potential liabilities. For example, under certain circumstances, lenders who have inappropriately exercised control of the management and policies of a debtor may have their claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions.
 - *Fraud.* Of paramount concern in purchasing loans is the possibility of material misrepresentation or omission on the part of borrower. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of the Clients to perfect or effectuate a lien on the collateral securing the loan. The Clients will rely upon the accuracy and completeness of representations made by borrowers to the originator of such loans to the extent reasonable but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to the Clients

may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

- *Bank Loans and Participations.* There are special risks associated with investments in bank loans and participations in bank loans, which include (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws, (ii) so-called lender-liability claims, (iii) environmental liabilities that may arise with respect to collateral securing the obligations and (iv) limitations on the ability of the Clients to directly enforce its rights with respect to participations. Successful claims by third parties arising from these and other risks, absent gross negligence or willful misconduct, will be borne by the Clients.
- *High Yield/High Risk Securities.* The Clients may invest in securities which are rated below investment-grade (hereinafter referred to as "lower rated securities") or which are unrated but deemed equivalent by the Investment Manager to those rated below investment-grade. These instruments generally offer a higher yield to maturity than that available from higher grade issues, but typically involve greater risk. Lower rated and unrated securities are especially subject to adverse changes in general economic conditions, to changes in the financial condition of their issuers and to price fluctuation in response to changes in interest rates. During periods of economic downturn or rising interest rates, issuers of these instruments may experience financial stress that could adversely affect their ability to make payments of principal and interest and increase the possibility of default. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the values and liquidity of these securities especially in a market characterized by only a small amount of trading. Perceived credit quality in this market can change suddenly and unexpectedly and may not fully reflect the actual risk posed by a particular lower rated or unrated security.
- *Complexity of Legal and Financial Analysis.* The companies in which the Clients may invest, by the nature of their leveraged capital structures, may involve a high degree of financial risk, and there can be no assurance that the Clients' rate of return objectives will be realized or that there will be full recovery of the Limited Partner's capital contributions. Moreover, there may be no centralized source for pricing information regarding securities of companies in which the Investment Manager intends to invest. Reliable pricing information may at times not be available from any source and, to the extent available, prices quoted by different sources are subject to material variation. Accordingly, it may be difficult to accurately determine an appropriate purchase price for the Clients' investments.
- *Bank Debt, Trade Claims and other Senior Securities.* Loans and other securities at the most senior part of the capital structure have increasingly become packaged for resale, allowing an investor to buy senior securities from a bank or directly from a corporation, or in the secondary market.
- *Capital Structure Arbitrage.* The Investment Manager may seek opportunities created by differential pricing of various instruments issued by one corporation, such as traditional bonds and convertible bonds or equity. Convertible bonds are convertible into shares of equity, and this stock-option component has a calculable value. The theoretical value of the whole instrument is the value of the traditional bonds plus the extra value of the option feature. If the difference between the convertible and the non-convertible bonds becomes excessive, then the Investment Manager

may take a position in the expectation that such spread will converge. Similarly, there may be value discrepancies between traditional bonds and equities.

- *Unsecured and Subordinated Investments.* Although the Clients will emphasize secured and senior obligations, distressed securities purchased by the Clients will be subject to certain additional risks to the extent that such securities may be unsecured and subordinated to substantial amounts of senior indebtedness, all or a significant portion of which may be secured. Moreover, such securities may not be protected by financial covenants or limitations upon additional indebtedness.
- *Reportable Positions.* The Clients may obtain a position in any public company that requires it to make filings concerning its holdings with the Securities and Exchange Commission (the “**SEC**”) and may become subject to other regulatory restrictions that could limit the ability of the Clients to dispose of its holdings at the times and in the manner the Clients would prefer. Violations of these regulatory requirements could subject the Clients to significant liabilities.
- *Suspensions of Trading.* Each securities exchange typically has the right to suspend or limit trading in all securities which it lists. Such a suspension involving securities owned by the Clients would render it impossible for the Clients to liquidate positions and, accordingly, could expose the Clients to losses.
- *Regulatory Risks of Investment Funds.* The regulatory environment for investment funds is evolving and changes therein may adversely affect the ability of the Clients to obtain the leverage they might otherwise obtain or to pursue its investment strategies. In addition, the regulatory or tax environment for derivative and related instruments is evolving and may be subject to modification by government or judicial action which may adversely affect the value of the investments held by the Clients. The effect of any future regulatory or tax change on the Fund is impossible to predict. Recent developments in the U.S. financial markets illustrate that the current environment is one of extraordinary and possibly unprecedented uncertainty for the financial services industry. The U.S. Dodd Frank Wall Street Reform and Consumer Protection Act (the “**Dodd-Frank Act**”) may impact the Clients through increased reporting requirements, limitations on certain trading activity and regulatory oversight by different agencies, such as the newly created Financial Stability Oversight Counsel. However, as many provisions of the Dodd-Frank Act require rulemaking by the applicable regulators before becoming fully effective, it is difficult to predict the impact of the Dodd-Frank Act on the Clients, and the markets in which it trades and invests. The Dodd-Frank Act could result in certain investment strategies in which the Clients engage or may have otherwise engaged becoming non-viable or non-economic to implement. The Dodd-Frank Act and regulations adopted pursuant to the act could have a material adverse impact on the profit potential of the Clients.
- *Market Disruptions.* The Clients may incur major losses in the event of disrupted markets and other extraordinary events which may affect markets in a way that is not consistent with historical pricing relationships. The risk of loss from a disconnect with historical prices is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving. The financing available to the Clients from banks, dealers and other counterparties will typically be reduced in disrupted markets. Such a reduction may result in substantial losses to the Clients. A sudden restriction of credit by the dealer community has resulted in forced liquidations and major losses for a number of investment funds

and other vehicles. Because market disruptions and losses in one sector can cause ripple effects in other sectors, many investment funds and other vehicles have suffered heavy losses even though they were not necessarily heavily invested in credit-related investments. In addition, market disruptions caused by unexpected political, military and terrorist events may from time to time cause dramatic losses for the Clients and such events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk. A financial exchange may from time to time suspend or limit trading. Such a suspension could render it difficult or impossible for the Clients to liquidate affected positions and thereby expose it to losses. There is also no assurance that off-exchange markets will remain liquid enough for the Clients to close out positions.

- *Investments in Undervalued Assets.* The Clients may invest in undervalued assets. The identification of investment opportunities in undervalued assets is a difficult task, and there is no assurance that such opportunities will be successfully recognized or acquired. While investments in undervalued assets offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from the Clients' investments may not adequately compensate investors for the business and financial risks assumed. An investor should be aware that it may lose all or part of its investment in the Clients. The Clients may be forced to sell, at a substantial loss, assets that are not, in fact, undervalued. In addition, the Clients may be required to hold such assets for a substantial period of time before realizing their anticipated value. During this period, a portion of the Clients' capital would be committed to the assets purchased, possibly preventing the Clients from investing in other opportunities. In addition, the Clients may finance such purchases with borrowed funds and thus will have to pay interest on such funds during such waiting period.
- *Illiquidity.* The investments made by the Clients may be very illiquid, and consequently the Clients may not be able to sell such investments at prices that reflect the Investment Manager's assessment of their value or the amount paid for such investments by the Clients. Illiquidity may result from the absence of an established market for the investments as well as legal, contractual or other restrictions on their resale by the Clients and other factors. Furthermore, the nature of the Clients' investments, especially those in financially distressed companies, may require a long holding period prior to profitability. The Partnership Agreement authorizes the General Partner to make distributions in kind of securities in lieu of or in addition to cash. In the event the General Partner makes distributions of securities in kind, such securities could be illiquid or subject to legal, contractual and other restrictions on transfer.
- *Commodities and Futures.* The Clients may trade on a limited basis in commodities and futures. Such trading activity is regulated by the Commodity Futures Trading Commission (the "**CFTC**"). Pursuant to an exemption from registration under CFTC regulations, the General Partner is not required to register, and is not registered, with the CFTC or the National Futures Association ("**NFA**") as a commodity pool operator (a "**CPO**") or as a commodity trading advisor ("**CTA**"). To comply with the exemption, the General Partner is subject to specific limitations on the amount of commodities and futures that it can trade on behalf of the Clients. Should the Clients' investments in commodities or futures instruments exceed the limits provided by the applicable exemption from registration, the General Partner will either have to register with the NFA or cease providing commodity interest trading advice to the Clients and liquidate the Clients' holdings of commodities and futures which could result in losses and additional costs to the Clients.

Fund Risks

- *Investment Judgment; Market Risk.* The profitability of a significant portion of the Clients' investment program depends to a great extent upon correctly assessing the future course of the price movements of securities and other investments. There can be no assurance that the Investment Manager will be able to predict accurately these price movements. With respect to the investment strategy utilized by the Clients, there is always some, and occasionally a significant, degree of market risk.
- *Reliance on Key Person.* The Clients will be substantially dependent on the services of the Principal. In the event of the death, disability, departure or insolvency of the Principal, or the complete transfer of the Principal's interest in the Investment Manager, the business of the Clients may be adversely affected. The Principal will devote such time and effort as he deems necessary for the management and administration of the Clients' business. However, the Principal may engage in various other business activities in addition to managing the Clients, and consequently may not devote all time to Clients business.
- *Investment Authority.* Substantially all decisions with respect to the management of the Clients are made by the General Partner and the Investment Manager. Limited Partners have no right or power to take part in the management of the Clients. In the event of the withdrawal or bankruptcy of the General Partner, generally the Clients will be liquidated.
- *Master-Feeder Structure.* The Fund generally invests through a "master-feeder" structure. Although a common investment fund structure, the "master-feeder" fund structure presents certain unique risks to investors. For example, a smaller feeder fund investing in the Master Fund may be materially affected by the actions of a larger feeder fund investing in the Master Fund. If a larger feeder fund withdraws from the Master Fund, the remaining feeder fund may experience higher *pro rata* operating expenses, thereby producing lower returns. The Master Fund may become less diverse due to a redemption by a larger feeder fund, resulting in increased portfolio risk. As a matter of Cayman Islands law, the Master Fund is not a legal entity. Legal proceedings by or against the Master Fund may be instituted by or against any one or more of the general partners only. Expenses or liabilities of the Master Fund (or its general partners) arising from any such suit would be borne by the Master Fund, and creditors of the Master Fund may enforce claims against all assets of the Master Fund. In addition, to the extent the Fund's assets are invested in the Master Fund, certain conflicts of interest may exist due to different tax considerations applicable to the Fund and other feeder funds.
- *Performance Allocation.* The Performance Allocation made to the Performance Allocation LP may create an incentive for the Investment Manager to make investments that are riskier or more speculative than would be the case in the absence of such Performance Allocation.
- *Withdrawal Restrictions.* There are severe restrictions on withdrawals from the Clients (which may be settled in securities rather than cash) and on transfers of Interests. The prior written consent of the General Partner is required for a transfer of the Interest of any Limited Partner. Because of the restrictions on withdrawals and transfers, an investment in the Clients is a relatively illiquid investment and involves a high degree of risk. A subscription for Interests should be considered

only by persons financially able to maintain their investment and who can accept a loss of all of their investment.

- *In-Kind Distributions.* There can be no assurance that the Clients will have sufficient cash to satisfy withdrawal requests or will be able to liquidate investments at the time of such withdrawal requests at favorable prices. Under the foregoing circumstances, and under other circumstances deemed appropriate by the General Partner, a Limited Partner may receive in-kind distributions from the Clients' portfolio.
- *No Distributions.* Since the Clients do not generally intend to pay distributions, an investment in the Clients is not suitable for investors seeking current distributions of income. Moreover, an investor is required to report and pay taxes on its allocable share of income from the Clients, even though no cash is distributed by the Clients.
- *Diversification.* Since the Clients' portfolio will not necessarily be widely diversified, the investment portfolio of the Clients may be subject to more rapid changes in value than would be the case if the Clients were required to maintain a wide diversification among companies, securities and types of securities.
- *Valuations.* From time to time, certain situations affecting the valuation of the Clients' investments (such as limited liquidity, unavailability or unreliability of third-party pricing information and acts or omissions of service providers to the Clients) could have an impact on the net asset value of the Clients, particularly if prior judgments as to the appropriate valuation of an investment should later prove to be incorrect after a net asset value-related calculation or transaction is completed. The Clients are not required to make retroactive adjustments to prior subscription or withdrawal transactions, or Management Fees or Performance Allocations based on subsequent valuation data.
- *Non-Public Information:* From time to time, the Investment Manager may come into possession of non-public information concerning specific companies. Under applicable securities laws, this may limit the Investment Manager's flexibility to buy or sell portfolio securities issued by such companies. The Clients' investment flexibility may be constrained as a consequence of the Investment Manager's inability to use such information for investment purposes.
- *Soft Dollars.* The Investment Manager may enter into "soft dollar" arrangements with one or more broker-dealers whereby the Investment Manager will direct securities transactions to the broker-dealer in return for research products and services from the broker-dealer. Although the Investment Manager will use the research and services in making investment decisions for the Clients, the Investment Manager may use such research or services for other accounts and the Clients will generally pay more than the lowest available commissions for execution of these transactions. The Investment Manager may also enter into "soft dollar" arrangements to cover Clients' expenses or costs and expenses of the Investment Manager to the extent such arrangements are permitted by law. See "*Brokerage and Custody.*"
- *No General Partner's Liability Beyond Fund Assets.* Subject to the General Partner's fiduciary responsibility to the Limited Partners, the General Partner will have no personal liability to the

Partners for the return of any capital contributions, it being understood that any such return shall be made solely from the Clients' assets.

- *Absence of Registration.* While the Clients may be considered similar to an investment company, it is not required and does not intend to register as such under the Investment Company Act of 1940, as amended (the "**Investment Company Act**"), or the laws of any country or jurisdiction and, accordingly, the provisions of the Investment Company Act (which, among other matters, require investment companies to have a majority of disinterested directors, require securities held in custody to be individually segregated at all times from the securities of any other person and to be clearly marked to identify such securities as the property of such investment company and regulate the relationship between the adviser and the investment company) are not applicable. *Prime Brokers and Custodians.* The Clients will rank as an unsecured creditor to each of its prime brokers in relation to assets that each such prime broker borrows, lends or otherwise uses and, in the event of the insolvency of a prime broker, the Clients might not be able to recover equivalent assets in full. In addition, if applicable law permits, cash that a prime broker holds or receives on the Clients' behalf may not be treated by the prime broker as client money, may not be segregated from the prime broker's own cash and may be used by the prime broker in the course of its investment business. In such event, the Clients will rank as the prime broker's general creditor. Because assets of the Clients held by custodians or brokers are generally not held in the Clients' name, a failure of any such custodians or brokers is likely to have a greater adverse impact on the Clients than if such assets were registered in the Clients' name. Rule 15c3-3 under the Exchange Act requires a broker-dealer to segregate a customer's securities. If the broker-dealer fails to do so, the Clients may be subject to a risk of loss of the assets held by the broker-dealer in the event of the broker-dealer's bankruptcy. In the event of a failure of a broker-dealer used by the Clients, the United States Securities Investor Protection Corporation provides a maximum of \$500,000 of account insurance, only \$100,000 of which may be taken in cash. Since the Clients' assets on deposit will exceed these amounts, the Clients may receive only a pro rata share of the remaining assets deposited with the failed broker-dealer.
- *Regulation.* Regulation of securities markets has undergone substantial change in recent years and is expected to continue to change. There can be no assurance that the Investment Manager will be able, for financial reasons or otherwise, to comply with future laws and regulations.
- *Relevant Laws.* Amendments to relevant laws could alter an expected outcome or introduce greater uncertainty regarding the likely outcome of an investment situation. In addition, market disruptions and the dramatic increase in the capital allocated to alternative investment strategies during recent years have led to increased governmental, as well as self-regulatory, scrutiny of the "hedge fund" industry in general, and certain legislation proposing greater regulation of the industry periodically is considered by the U.S. Congress and the SEC, as well as the governing bodies of non-U.S. jurisdictions. It is impossible to predict what, if any, changes in the regulations applicable to the Clients, the Investment Manager, the markets in which they trade and invest or the counterparties with which they do business may be instituted in the future.
- *Financial Markets and Regulatory Change.* The hedge fund industry is subject to regulatory scrutiny and risks relating to uncertainty in the credit markets. Market disruptions and the dramatic increase in the capital allocated to alternative investment strategies during recent years have led to increased governmental as well as self-regulatory scrutiny of the "hedge fund" industry in

general. The laws and regulations affecting businesses continue to evolve in an unpredictable manner. Laws and regulations, particularly those involving taxation, investment and trade, applicable to the Clients' activities can change quickly and unpredictably, and may at any time be amended, modified, repealed or replaced in a manner adverse to the interests of the Clients.

- The Clients or the Investment Manager may be or may become subject to unduly burdensome and restrictive regulation. In particular, in response to significant recent events in international financial markets, governmental intervention and certain regulatory measures have been adopted in certain jurisdictions, including restrictions on short selling of certain securities in the US, the UK and certain other jurisdictions. The extent to which the underlying causes of these recent events are pervasive throughout global financial markets and have the potential to cause further instability is not yet clear. These recent events, and their underlying causes, have heightened the risks associated with the investment activities and operations of hedge funds, including without limitation, those resulting from a substantial reduction in the availability of credit and the increased cost of short-term credit, a decrease in market liquidity, an increased risk of insolvency of prime brokers and other counterparties, and regulatory changes that may have an adverse effect on hedge funds generally, and in particular, on the Clients' ability to achieve their investment objective. The hedge fund industry may continue to be adversely affected by the recent developments in the financial markets in the U.S. and abroad, and any future legal, regulatory, or governmental action and developments such financial markets and the broader U.S. economy could have an adverse effect on the Clients' business, operations and performance.
- *Regulatory and Legal Changes in Financial Crisis.* Legal, tax and regulatory changes could occur during the term of the Partnership that may adversely affect the Clients. The regulatory environment for hedge funds, derivatives transactions and the financial services industry in general is evolving, and changes in the regulation may adversely affect the value of investments held by the Clients and the ability of the Clients to obtain leverage. In addition, the securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. The SEC, the CFTC, other regulators and self-regulatory organizations are authorized to take extraordinary actions in the event of market emergencies. The effect of any future regulatory change on the Clients could be substantial and adverse.
- Amendments to relevant laws could alter an expected outcome or introduce greater uncertainty regarding the likely outcome of an investment situation. In addition, market disruptions and the dramatic increase in the capital allocated to alternative investment strategies during recent years have led to increased governmental as well as self-regulatory scrutiny of the "hedge fund" industry in general, and certain legislation proposing greater regulation of the industry periodically is considered by the U.S. Congress and the SEC or CFTC, as well as the governing bodies of non-U.S. jurisdictions. It is impossible to predict what, if any, changes in the regulations applicable to the Clients, the General Partner, the Investment Manager, the markets in which they trade and invest or the counterparties with which they do business may be instituted in the future.
- Regulation of securities markets has undergone substantial change in recent years and is expected to continue to change. There can be no assurance that the General Partner or Investment Manager will be able, for financial reasons or otherwise, to comply with future laws and regulations.

- *Cybersecurity Considerations.* The Investment Manager's information and technology systems may be vulnerable to 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 Investment Manager has implemented various measures 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, the Investment Manager may have to make a significant investment to fix or replace them. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in the Investment Manager's or the Clients' operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). Such a failure could harm the Investment Manager's or the Clients' reputation, subject any such entity and their respective affiliates to legal claims and otherwise affect their business and financial performance.

Tax Related Risks

- *Tax Uncertainty.* The Clients may take positions with respect to certain tax issues which depend on legal conclusions not yet resolved by the courts. Should any such positions be successfully challenged by the U.S. Internal Revenue Service (the "**Service**") or other applicable taxing authority, a Limited Partner might be found to have a different tax liability for that year than that reported on that Limited Partner's federal income tax return.
- *Uncertainty and Complexity of Tax Treatment.* The tax aspects of an investment in a partnership are complicated and complex and, in many cases, uncertain. Statutory provisions and administrative regulations have been interpreted inconsistently by the courts. Additionally, some statutory provisions remain to be interpreted by administrative regulations. Investors will thus be subject to the risk caused by the uncertainty of the tax consequences with respect to an investment in the Clients. Each prospective investor should have the tax aspects of an investment in the Clients reviewed by professional advisors familiar with such investor's personal tax situation and with the tax laws and regulations applicable to the investor and private investment vehicles. Prospective investors are strongly urged to review the discussion below under "*Tax Considerations*" and "*ERISA and Other Regulatory Considerations*" for a more complete discussion of certain of the tax risks inherent in the acquisition of Interests and to consult their own independent tax advisors.
- *Risk of Adverse Determination.* There can be no assurance that the conclusions set forth in this Memorandum will not be challenged successfully by the Service, or significantly modified by new legislation, changes in the Service's positions or court decisions. The Clients have not applied for, nor does it expect to apply for, any advance rulings from the Service with respect to any of the federal income tax consequences described in this Memorandum. No representation or warranty of any kind is made by the General Partner with respect to the federal income tax consequences relating to an investment in the Clients. The Clients may take positions with respect to certain tax issues which depend on legal conclusions not yet resolved by the courts. Should any such positions be successfully challenged by the Service or other applicable taxing authority, there could be a materially adverse effect on the Clients, and a Limited Partner might be found to have a different tax liability for that year than that reported on its income tax returns.

- Risk of Tax Audit.*** Pursuant to the U.S. Bipartisan Budget Act of 2015, as amended, or any similar state or local tax rules ("**BBA**"), the Service is generally permitted to determine adjustments to items of income, gain, deduction, loss or credit of the Clients, and assess and collect taxes attributable thereto (including any applicable penalties and interest), at the Clients' level. Although certain elections or other procedures may be available to mitigate the impact of such determination, assessment or collection, there can be no assurances that the Clients will avoid, or be able to avoid, any entity-level determination, assessment or collection. In addition, any such elections or procedures may have differing results on the tax liability of Limited Partners depending on the tax status of each Limited Partner, and the Clients may not be able to take into account the particular facts or circumstances of a Limited Partner. A Limited Partner may be required to bear a share of the economic burden of taxes so assessed or collected without regard to whether such person was a Limited Partner, or without regard to his relative ownership interest, during the taxable year of the Clients to which such taxes relate. Each partnership required to file, or that files, a U.S. income tax return, must designate a representative under the BBA (the "**Partnership Representative**") with the sole authority to act on behalf of, and to bind, the partnership, the limited partners, and any other person whose tax liability is determined by taking into account adjustments under the BBA. Limitations on the authority of the Partnership Representative in the Partnership Agreement or in any other agreement will not be binding during examinations upon audit or any other proceedings. In addition, Limited Partners will not be able to participate in any such examinations or proceedings without permission of the Service. Limited Partners should note that the BBA regime is complex and that the impact on any current or future allocations made or cash available for distributions or withdrawals by the Clients is uncertain. The Clients may also be exposed to the risk that these rules apply to any entity treated as a partnership for U.S. federal income tax purposes in which the Clients directly or indirectly invests. The legal and accounting costs incurred in connection with any audit of the Clients will be borne by the Clients. The cost of any audit of any Limited Partner will be borne solely by the Limited Partner. Prospective Limited Partners should consult their own tax advisors in this regard.
- Tax Considerations Taken into Account.*** The General Partner may take tax considerations into account in determining when the Clients' investments should be sold or otherwise disposed of and may assume certain market risk and incur certain expenses in this regard to achieve favorable tax treatment of a transaction; however, no assurances can be provided that any such favorable tax treatment will be achieved.
- Tax Liabilities Without Distributions.*** If the Clients has taxable income in a fiscal year, each Limited Partner will be taxed on that income in accordance with its distributive share of the Clients' profits, whether or not such profits have been distributed. Because the General Partner anticipates that there will be no cash distributions to the Limited Partners, an investor may incur tax liability with respect to activities of the Clients without receiving sufficient distributions from the Clients to defray such tax liabilities. In order to satisfy its tax liability in such a case, a Limited Partner would need sufficient funds from sources other than the Clients. Furthermore, the Clients may make investments with respect to which the Clients recognizes income for U.S. federal income tax purposes prior to receiving the cash or realizing the income as an economic matter. In addition, the Clients may recognize income for U.S. federal income tax purposes that does not reflect income as an economic matter. Such recognition of income prior to receipt of an economic benefit, if any, may result in increased tax liability for the Partners.

- *Delayed Schedules K-1.* The Clients will provide Schedules K-1 as soon as practical after receipt of all of the necessary information. However, the Clients may be unable to provide final Schedules K-1 to Limited Partners for any given tax year until significantly after April 15 of the following year. The General Partner will endeavor to provide Limited Partners with estimates of the taxable income or loss allocated to their investment in the Clients on or before such date, but final Schedules K-1 may not be available until completion of the Clients' annual audit. Limited Partners should be prepared to obtain extensions of the filing date for their income tax returns at the federal, state and local levels.
- *Unrelated Business Taxable Income.* The Clients may make investments or engage in activities that will give rise to unrelated business taxable income ("**UBTI**"). Thus, an investment in the Clients may be less desirable for tax-exempt investors. The Clients may participate in investments that give rise to UBTI through entities that are treated as partnerships for U.S. federal income tax purposes. Because of the "flow-through" principles applicable to partnerships, if UBTI is earned by the Clients, a tax-exempt investor in the Clients will realize UBTI. Because of the General Partner's objective of maximizing the pre-tax returns of all the Limited Partners, the General Partner may be required to make certain decisions to maximize pre-tax returns that result in Tax-Exempt U.S. Investors (as defined below) recognizing more UBTI than might otherwise be the case. In some cases, the General Partner may forego actions with regard to the acquisition, financing, management and disposition of assets that would reduce UBTI because such actions would reduce the overall pre-tax returns to all the Limited Partners.
- *Recently Enacted Tax Reform Legislation.* The regulatory and tax environment globally for investments in which the Clients may participate is evolving, and changes in the regulation or taxation of such investments may materially adversely affect the value of such investments and the ability of the Clients to pursue its investment strategies. Recently enacted U.S. tax reform legislation called the Tax Cuts and Jobs Act, among other things, makes significant changes to the rules potentially applicable to the taxation of the Clients and/or its investors, such as changing the corporate tax rate to a flat 21% rate, modifying the rules regarding limitations on certain deductions, introducing a capital investment deduction in certain circumstances, placing certain limitations on the interest deduction, modifying the rules regarding the usability of certain net operating losses, and the migration from a worldwide system of taxation to a modified territorial system with corresponding measures to prevent base erosion. At this time the ultimate outcome of the new legislation on the Clients and its investors is uncertain and could be adverse or could present new economic opportunities, which the Clients may consider. Prospective investors should consult their own tax advisors regarding potential changes in tax laws.
- *Tax Changes.* Investors will be subject to the risk that changes to the tax law may adversely affect the federal income tax consequences of their investment in the Clients. Changes in existing tax laws or regulations and their interpretation may be enacted after the date of this Memorandum, possibly with retroactive effect, and could alter the income tax consequences of an investment in the Clients. Certain provisions of the Internal Revenue Code of 1986, as amended (the "**Code**") may be further amended or interpreted in a manner adverse to the Clients, in which event any benefits derived from an investment in the Clients may be adversely affected. In addition, significant legislative and budgetary proposals affecting tax laws have been made by the legislative and executive branches of the U.S. federal government. The likelihood of enactment of any such proposals, or any similar proposals, into law is uncertain. The enactment of any such proposals,

including subsequent proposals, into law could have material adverse effects on the Clients and/or the Limited Partners. Enactment of such legislation, or similar legislation, could require significant restructuring of the Clients in order to mitigate such effects.

The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in the Clients. Prospective investors should read this entire Memorandum and consult with their own advisers before deciding to invest in the Clients. In addition, as the investment program of the Clients develops and changes over time, an investment in the Clients may be subject to additional and different risk factors. No assurance can be made that profits will be achieved or that substantial losses will not be incurred.

In view of the foregoing considerations, an investment in Interests is suitable only for investors who are capable of bearing the relevant investment risks.

Item 9 Disciplinary Information

This Item requests information relating to legal and disciplinary events in which HN Saltoro or any supervised persons, as defined by the Advisors Act, have been involved that are material to Client's or prospective Client's evaluations of HN Saltoro's advisory business or management. There are no reportable material legal or disciplinary events related to HN Saltoro or any of its supervised persons. In the ordinary course of HN Saltoro's business, HN Saltoro, its affiliates and employees have not in the past been subject to any formal or informal regulatory inquiries, subpoenas, investigations, legal or regulatory proceedings involving the SEC, or any other regulatory authorities, including private parties and self-regulatory organizations ("SRO").

Item 10 Other Financial Industry Activities and Affiliations

- A. HN Saltoro is not registered, and does not have an application pending to register, as a broker-dealer or registered representative of a broker-dealer. Furthermore, HN Saltoro and its employees do not have any material relationships or arrangements that could pose material conflicts of interest to the Firm or the Clients.
- B. HN Saltoro is not registered, and does not have an application pending to register, as a futures commission merchant, commodity pool operator, or commodity trading advisor. HN Saltoro currently claims and relies on an exemption from registration under CFTC Rule 4.5 with the Commodity Futures Trading Commission ("CFTC"), and therefore HN Saltoro is exempt from registration as a commodity pool operator ("CPO"). CFTC Rule 4.5 as it applies to registered investment companies, requires registered funds relying on the rule to: (i) refrain from marketing itself as a vehicle for trading in the commodity futures, commodity options or swaps markets; and (ii) other than bona fide hedging transactions, comply with de minimis restrictions. Accordingly, HN Saltoro does not market itself or any of its Clients as a vehicle for trading in the commodity futures, commodity options or swaps markets to any prospective or current investors.
- C. As discussed in Item 6, the HN Saltoro is entitled to receive performance-based fees from the Funds. This may create an incentive for the Firm to make investments that are riskier or more speculative than would be the case if such arrangement were not in effect. However, as noted in Item 11, the Firm has adopted a written Code of Ethics that contains policies and procedures to address conflicts of interest. Under such policies and procedures, the Firm is required to make investment decisions for the Funds in a manner that is consistent with its fiduciary duties to its clients. The Firm has no other relationships or arrangements with any related person listed in the instructions to Item 10.C. that are material to its advisory business or to its Clients.
- D. The Adviser does not recommend or select other investment advisers for the Funds.

Item 11 Code of Ethics

A. HN Saltoro has adopted a written Code of Ethics (the “Code”) designed to address and avoid potential conflicts of interest as required under Rule 204A-1 under the U.S. Investment Advisers Act of 1940, as amended (the “Advisers Act”). The Code sets forth a standard of business conduct and compliance with federal securities laws by all of the Adviser’s employees. The Code contains policies and procedures that ensure that all personal securities trading by employees of the Adviser is conducted in such a manner as to avoid actual or potential conflicts of interest or any abuse of an individual’s position of trust and responsibility. The Adviser prohibits personal trading of certain securities or instruments; requires pre-clearance of personal trades in certain circumstances, including purchases of an IPO or a new private placement; requires periodic reporting of employees’ personal securities transactions and holdings; and requires prompt internal reporting of Code violations.

The Adviser has established procedures in its Code to prevent the improper use of material, non-public information, which includes procedures for, among other things, the use and maintenance of restricted trading lists. Because the structure of the Adviser would make information barriers impractical, the firm has not imposed information barriers to restrict the internal flow of possible material, non-public information. Thus, all professionals are deemed to be in receipt of material, non-public information, in all instances where any professional of the Adviser has received material, non- public information, and, therefore, may not trade based on that information. Adviser will provide a copy of the Code to any investor or prospective investor upon request.

B. Neither HN Saltoro nor any of its related persons recommends to Clients, or buys or sells for Client accounts, securities in which HN Saltoro or any of its related persons have a material financial interest.

C. Generally, our Firm, our affiliates and the principals and employees of our Firm may not buy or sell for themselves the same securities (or related securities, e.g., warrants, options or futures on such securities) that we recommend to our Clients. We may permit exceptions to this rule when an employee arrives at our Firm owning securities of an issuer in which our Clients have invested or may invest interest. In order to avoid any potential conflicts of interest that may arise between our employees and our Clients and to prevent our employees from selling the same or similar securities in which we trade for our Clients contemporaneously for their personal accounts, our CCO must review and pre-approve all employee personal securities trades. We would permit an employee to sell his or her position if our Clients are not actively trading that particular security and if doing so would not adversely affect our Clients in any way.

D. HN Saltoro, its affiliates and their respective officers, directors, trustees, members, partners and employees and their respective funds and investment accounts (collectively, the “Related Parties”) engage in a broad range of activities, including activities for their own account and for the accounts of Clients. This section describes various potential conflicts that may arise in respect of the Related Parties, as well as how we address such conflicts of interest. The discussion below does not describe all conflicts that may arise.

Any of the foregoing potential conflicts of interest will be discussed and resolved on a case-by-case basis. HN Saltoro’s determination as to which factors are relevant, and the resolution of such conflicts, will be made using its best judgment, but in HN Saltoro’s sole discretion. In resolving conflicts, HN Saltoro will take into consideration the interests of the relevant Clients, the circumstances giving rise to the conflict and applicable laws.

Relationship Between HN Saltoro and HN Capital Partners, L.L.C.: HN Capital Partners, L.L.C. (“HN Capital”) an affiliated investment adviser, provides marketing and operational support to HN Saltoro. These services are provided by HN Capital under an agreement between HN Saltoro and HN Capital. Certain of HN Capital’s employees and officers also act as members on HN Saltoro’s investment committee and serve as officers of HN Saltoro, including serving as HN Saltoro’s Chief Compliance Officer. A majority of HN Saltoro’s Board consists of individuals who are not affiliated with HN Capital. The relationships between HN Saltoro and HN Capital may create conflicts of interest for their clients, including conflicts arising from the allocation of investment opportunities identified by investment professionals of both HN Saltoro and HN Capital which may be appropriate for clients of both advisers, as both HN Saltoro and HN Capital currently act as managers for pooled investment vehicles. HN Saltoro and HN Capital intend to address such potential conflicts of interest by submitting each investment opportunity which has been independently approved by the investment committee of each adviser for its clients to a joint allocation committee consisting of individuals who are officers or employees of both entities. Such opportunities will then be allocated among the clients of HN Saltoro and HN Capital in a manner designed to achieve a fair and equitable allocation of investment opportunities among participating accounts without regard to which of HN Saltoro or HN Capital serves as the account’s manager.

Approach to Other Potential Conflicts: As a fiduciary, HN Saltoro owes its investment advisory Clients a duty of loyalty. This includes the duty to address, or at minimum disclose, conflicts of interest that may exist between different Clients; between HN Saltoro and Clients; or between its employees and its Clients. Where potential conflicts arise, HN Saltoro will take steps to mitigate, or at least disclose, them. Conflicts that HN Saltoro cannot avoid (or chose not to avoid) are mitigated through written policies that HN Saltoro believes protect the interests of its Clients as a whole. In these cases – which include issues such as personal trading and Client entertainment – regulators have generally prescribed detailed rules or principles for investment firms to follow. By complying with these rules, using robust compliance practices, HN Saltoro believes that it has handle these conflicts appropriately. These interactions are not static; HN Saltoro’s business is continually evolving and changes in HN Saltoro’s activities can lead to new potential conflicts. HN Saltoro reviews it policies and procedures on an ongoing basis to evaluate their effectiveness and update them as appropriate.

Item 12 Brokerage Practices

As a general rule, HN Saltoro has complete discretion in deciding which broker-dealers to use. In selecting broker-dealers and determining the reasonableness of their commissions for our Clients' transactions, we seek to obtain best execution by considering any combination of the following factors:

- the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any);
- the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution; the financial strength, integrity and stability of the broker;
- the Firm's risk in positioning a block of securities;
- the quality, comprehensiveness and frequency of available research services considered to be of value; and
- the competitiveness of commission rates in comparison with other brokers satisfying our other selection criteria.

We are not required to weigh any of the above factors equally. We need not solicit competitive bids and do not have an obligation to seek the lowest available commission cost. Since commission rates are negotiable, selecting brokers on the basis of considerations which are not limited to applicable commission rates may at times result in higher transaction costs than would otherwise be obtainable. Our Clients bear the brokerage commissions and other charges related to its investment transactions.

Research and Soft Dollar Benefits: Currently we do not maintain soft dollar accounts or soft dollar benefit. However, in the future, should we receive research products or other soft dollar benefits from brokers we will ensure they fall within the safe harbor established by Section 28 (e) of the Securities Exchange Act of 1934, as amended.

Brokerage for Client Referrals: We may consider investor referrals in selecting broker-dealers. At times, we may have an incentive to select a broker-dealer based on our interest in receiving referrals, rather than on our Clients' interest in receiving most favorable trade execution.

Although the Clients are managed by the same team of investment professionals, the expected risk and return profile for each may differ and in certain cases investment opportunities may be offered to one Client and not to other Clients. Where an investment opportunity is suitable among one or more Client, we may aggregate Clients' trades when such aggregation is expected to be in the best interest of all participating Clients. Such aggregation may enable HN Saltoro to obtain a more favorable price or better commission rate or otherwise reduce transaction costs for Clients. Participating Clients in a block trade on a pro rata basis must receive the average price and pay proportional share of any commission.

Furthermore, as a general rule, HN Saltoro receives discretionary investment authority from its Clients at the outset of an advisory relationship. Depending on the terms of the applicable investment management agreement, HN Saltoro's authority may include the ability to select broker-dealers through which to execute transactions on behalf of its Clients, and to negotiate the commission rates, if any, at which transactions are effected. HN Saltoro may also have the authority to enter into International Swap and Derivatives Association ("ISDA"), repurchase clearing, trading brokerage, margin future, options, or other types of agreements on behalf of HN Saltoro's Clients. In making decisions as to which securities are to be bought or sold and the amounts thereof, HN Saltoro is guided by the mandate selected by the Client and any Client-imposed guidelines or restrictions. Unless HN Saltoro and the Client have entered into a non-discretionary

arrangement, HN Saltoro generally is not required to provide notice to, consult with, or seek the consent of its Clients prior to engaging in transactions.

Aggregation of Transactions: In some circumstances, HN Saltoro may seek to buy or sell the same securities contemporaneously for multiple Client accounts. HN Saltoro may, in appropriate circumstances aggregate securities trades for a Client with similar trades for other Clients but are not required to do so. In particular, HN Saltoro may determine not to aggregate transactions that relate to portfolio management decisions that are made independently for different accounts or if HN Saltoro determines that aggregation is not practicable, not required or inconsistent with Client direction. When transactions are aggregated, and it is not possible, due to prevailing trading activity or otherwise, to receive the same price or execution on the entire volume of securities purchased or sold, the various prices may be averaged or allocated on another basis deemed to be fair and equitable. In addition, under certain circumstances, the Clients will not be charged the same commission or commission equivalent rates in connection with a bunched or aggregated order. The effect of the aggregation may therefore, on some occasions, either advantage or disadvantage any particular Client.

From time to time, aggregation may not be possible because a security is thinly traded or otherwise not able to be aggregated and allocated among all Client accounts seeking the investment opportunity or a Client may be limited in, or precluded from, participating in an aggregated trade as a result of that Client's specific brokerage arrangements. Also, an issuer in which Clients wish to invest may have threshold limitations or aggregate ownership interests arising from legal or regulatory requirements or company ownership restrictions, which may have the effect of limiting the potential size of the investment opportunity and thus the ability of the applicable Client to participate in the opportunity.

Allocation of Investment Opportunities: It is HN Saltoro's general policy to allocate investments among its Clients in a manner which it believes to be in a fair and equitable manner under the circumstances based upon various factors deemed relevant by HN Saltoro including, without limitation, investment objectives, guidelines and restrictions applicable to the Client, Client risk profiles, financial condition and tax status. Allocations of investment opportunities should not be based on any of the following, or similar, reasons: (i) to generate higher fees paid by one account over another, or to produce greater fees to HN Saltoro; (ii) to develop a relationship with a Client or prospective Client; or (iii) to compensate a Client for past services or benefits rendered to the company or any employee of HN Saltoro or to induce future services or benefits to be rendered to HN Saltoro or any employee of HN Saltoro.

HN Saltoro's policy, where an opportunity to purchase or sell an investment is appropriate for more than one Client, is to aggregate Client orders when doing so is likely to result in a better overall price or reduced cost for the Client trade. Consistent with its fiduciary duties, HN Saltoro allocates trades to its Clients on an equitable basis as set forth in this policy. Each Client who participates in an aggregated order participates at the average price with all transaction costs shared on a pro rata basis pursuant to these written procedures. If all investment orders placed for Client accounts cannot be fully executed under prevailing market conditions, then the securities traded should be allocated among Client accounts a manner HN Saltoro deems to be equitable, taking into account the size of the order placed for each account and any other relevant factors.

Item 13 Review of Accounts

Our Chief Investment Officer engages in active management and frequent transactions on behalf of our Clients and, accordingly, reviews our transactions, positions and cash balances on a daily basis. We have engaged an outside administrator to prepare monthly unaudited reports reviewing the Clients' performance for such month. These reports are distributed to Fund investors. Additionally, audited financial reports prepared by independent auditors are distributed to the Fund's investors on an annual basis.

With respect to the Managed Account, the Firm maintains a shadow portfolio on a daily basis. The Firm is not responsible for maintaining official books or for valuing any of the assets held in the Managed Account.

Item 14 Client Referrals and Other Compensation

Solicitation, Introduction or Placement Arrangements

From time to time, HN Saltoro may compensate certain affiliated and unaffiliated persons or entities for referrals or introductions to HN Saltoro or placements of interests in the Clients, in compliance with applicable law, including circumstances where, in connection with discrete advisory transactions, HN Saltoro will pay or split a portion of the fees with an unaffiliated third-party for assisting in obtaining a specific Client. The material terms of such arrangements will be disclosed to relevant Clients or investors. HN Saltoro will inform each Separate Account investor and any other Client that is the subject of such solicitation services that the third-party solicitor will be compensated by the Separate Account investor, the Client or HN Saltoro, as the case may be. The name of the third-party providing the services will also be disclosed to each relevant Separate Account investor and any other Client that is the subject to such solicitation services, along with the nature of any affiliation between the third-party and HN Saltoro.

Item 15 Custody

While it is our practice not to accept or maintain physical possession of the Fund's assets, we are deemed to have custody of its assets under Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended. In order to comply with Rule 206(4)-2, we utilize the services of a qualified custodian (as defined under Rule 206(4)-2) to hold all of the Fund's assets. In accordance with Rule 206(4)-2, we also (1) engage an outside auditor to audit the Fund at the end of each fiscal year and (2) distribute the audited financial statements that are prepared in accordance with U.S. generally accepted accounting principles to all Investors within 120 days after the end of the fiscal year.

HN Saltoro does not have custody over the Managed Account's cash or securities.

Item 16 Investment Discretion

As a general rule, HN Saltoro receives discretionary investment authority from its Clients at the outset of an advisory relationship. Depending on the terms of the applicable investment management agreement, HN Saltoro's authority may include the ability to select broker-dealers through which to execute transactions on behalf of its Clients, and to negotiate the commission rates, if any, at which transactions are affected.

Item 17 Voting Client Securities

Securities held in Client Accounts

We have the authority to vote Clients' securities and have implemented proxy voting policies and procedures in accordance with securities laws and our fiduciary obligations. We will review each proxy statement on an individual basis and vote exclusively with the goal to best serve the financial interests of our Clients. We will consider each proxy on its own merits and will make an independent determination whether to support or oppose management's position. We believe the recommendation of management should be given substantial weight but will not support management proposals that may be detrimental to the underlying value of the Client's positions. Upon request, our Clients and Investors can obtain a copy of our proxy voting policies and procedures and information regarding how the Firm has voted proxies on behalf of the Clients.

Conflicts of Interest

HN Saltoro's Chief Compliance Officer is responsible for monitoring and resolving possible material conflicts with respect to proxy voting. Because the Guidelines are pre-determined and designed to be in the best interests of shareholders, application of the Guidelines to vote Client proxies should, in most cases, adequately address any possible conflicts of interest. A conflict of interest may exist, for example, if HN Saltoro has a business relationship with (or is actively soliciting business from) either the company soliciting the proxy or a third party that has a material interest in the outcome of a proxy vote or that is actively lobbying for a particular outcome of a proxy vote. In addition, any portfolio manager with knowledge of a personal conflict of interest (i.e., a family member in a company's management) relating to a particular referral item shall disclose that conflict to the Chief Compliance Officer and may be required to recuse himself or herself from the proxy voting process. Issues raising possible conflicts of interest may be referred to the Chief Compliance Officer for resolution. If the Chief Compliance Officer does not agree that the portfolio manager's rationale is reasonable, the Chief Compliance Officer will refer the matter to the Investment Committee to vote the proxy. If a matter is referred to the Investment Committee the decision made and basis for the decision will be documented by the Chief Compliance Officer.

Item 18 Financial Information

HN Saltoro has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to its Clients and has not been the subject of a bankruptcy proceeding during the past ten years.