

# FORM ADV Uniform Application for Investment Adviser Registration

## Part 2A: Investment Adviser Brochure

### Item 1: Cover Page



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March 31, 2021

Seelaus Asset Management, LLC ("Seelaus AM" or "the Firm") is a SEC registered investment adviser ("RIA") that specializes in fixed-income and equity portfolio management and Exchange Traded Fund ("ETF")-based tactical asset allocation strategies. Seelaus AM works with private clients, family offices, foundations, pension plans and other institutional investors. Registration with the SEC does not imply any certain level of skill or training.

**This brochure provides information about the qualifications and business practices of Seelaus AM. If you have any questions about the contents of this brochure, please contact Investor Relations at [ir@seelausam.com](mailto:ir@seelausam.com) or (855) 212-0955. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.**

Additional information about Seelaus AM is also available on the SEC's website which may be found at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 Material Changes**

Summary of material changes since last annual update dated March 31, 2020

1. On June 30, 2020 the role of Chief Compliance Officer was assumed by Karolina Pajdak with Jamie Mayo taking over her Chief Financial Officer responsibilities.
2. In October 2020, Seelaus Asset Management, LLC launched a Feeder Fund, Seelaus Credit Opportunities Offshore Fund Ltd., to accommodate offshore investors.
3. In October 2020, Seelaus Asset Management, LLC launched its SPAC strategy.
4. In November of 2020, Seelaus Asset Management closed the Sheraton Partners, LP Private Fund Investment.
5. In February of 2021, Tara Freshwater was promoted to Chief Operating Officer following the departure of Christina Goulding.
6. In March 2021, Chief Investment Officer Randy Masel retired.

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## Item 4 Investment Advisory Business

Seelaus AM is a SEC registered investment adviser (RIA) firm that specializes in both fixed income and equity portfolio management and ETF-based tactical asset allocation strategies for high net worth individuals, family offices, foundations, pension plans, and other institutional investors. Seelaus AM was established in May 2009 when R. Seelaus & Co, Inc. acquired Granite Springs Asset Management, LLC. Seelaus AM is wholly owned by R. Seelaus & Co., Inc.

Seelaus AM provides asset management and financial planning services. Neither the Firm nor its investment adviser representatives (IARs) provide legal or tax advice of any kind. Seelaus AM is a RIA that develops investment strategies and then executes investment decisions, on behalf of its clients, on both a discretionary and a non-discretionary basis.

Seelaus AM's investment philosophy is based on two principal beliefs: (1) risk management leads to superior risk-adjusted returns over time; and (2) asset allocation is the most important investment decision.

Seelaus AM has expertise managing taxable and tax-exempt municipal bond portfolios, mortgage backed securities (MBS) portfolios and developing a variety of strategies across equity and fixed income markets. Seelaus AM offers a disciplined value-oriented style of investment management, which spans multiple investment objectives and strategies. The Firm uses a "top-down" – "bottom-up" investment approach that seeks to identify market sectors expected to have the best return potential (top-down) and then to identify the individual securities within those sectors that have the potential to generate superior returns (bottom-up).

Seelaus AM provides personal financial planning to individuals, families and their related entities, trusts, estates and family businesses. Seelaus AM works with clients to define financial objectives and to develop strategies to reach those objectives, some of which may include: identification of financial problems, cash flow and budget management, tax planning, risk exposure review, investment management, education funding, retirement planning, estate planning, charitable goals, special needs planning, family business succession issues, fringe benefits, and/or other issues specific to the client. Seelaus AM or an affiliate serves as adviser and/or general partner to several private funds: Edgewood Partners, LP; Navesink River Partners, LP; Ocean Partners, LLC; Sunnymead Partners LLC; Granite Springs Total Return Master Fund, LP; and Seelaus Credit Opportunities Fund LP with its feeder fund Seelaus Credit Opportunities Offshore Fund Ltd. (collectively "Seelaus AM Private Funds").

Seelaus AM customizes investment portfolios to meet the needs of its clients. Portfolio investment objectives are defined at the outset of a client's relationship with the Firm. Then, appropriate investment strategies are developed for clients in separately managed accounts based on the knowledge of each client's income needs, time horizon and risk tolerance. Clients in separately managed accounts may impose restrictions on investing in certain securities or types of securities. Seelaus AM communicates with clients on a regular basis to review investment objectives, and changes are made to their respective investment plans as necessary. The private funds, not the investors thereunder, are deemed to be Seelaus AM's clients and investors in the private funds may not impose investment guidelines and/or restrictions on the private funds.

Seelaus AM offers an automated advisory program called Granite Automated Investment SERVICE ("GAISER"). Seelaus AM has an agreement with Jemstep, Inc. who has developed and operates an online advisor platform, called Jemstep Advisor Pro, which provides recommended portfolio allocations, that are primarily ETFs, based on Jemstep's algorithms. Seelaus AM uses Jemstep Advisor Pro as an onboarding tool for its GAISER clients and to provide the recommended portfolio allocations in the management of GAISER client accounts. This is a passive investment program which invests in primarily ETF based portfolios. The minimum account size for this program is \$10,000.

As of December 31, 2020, Seelaus AM managed approximately \$494.9 million in discretionary client accounts, and approximately \$16.3 million in non-discretionary client accounts.

## Item 5 Fees and Compensation

The specific manner in which fees are charged by Seelaus AM is memorialized in a client's written Investment Advisory Contract ("IAC"). The basic advisory fee (other than a GAISER type account) is 1.5% of assets under management, which is paid quarterly in advance and is based on a client's assets under management on the close of business on the last day of the prior quarter. Investment advisory fees are negotiable. If a client closes an account before the end of the quarter, the unearned fee is prorated and refunded; if a client opens an account a pro-rated fee is assessed. The specific manner in which fees are charged by Seelaus AM's GAISER clients is established in the client's written IAC. The basic advisory fee is 0.8% of assets under management, which can be negotiated at the discretion of the Firm, paid quarterly in advance and is based on a client's assets under management on the close of business on the last day of the prior quarter. If a client closes an account prior to the end of a quarter, the unearned fee is refunded on a prorated basis.

In connection with a financial planning engagement, the service is billed at an hourly rate of \$300 per hour, or at a fixed rate ranging from \$5,000-\$7,000 depending on the complexity of the consultation. Each limited partnership entity managed by Seelaus AM has a fee structure detailed in its respective private placement memorandum or offering memorandum (collectively "Offering Documents") and ranges from 0.25% to 0.50% of net asset value on a quarterly basis (1% to 2% annually). With regard to the Seelaus Credit Opportunities Fund and Ocean Partners, an incentive performance fee (15% to 20% annually) based on performance may be charged. Management fees are charged quarterly in advance and any applicable performance fee is calculated and charged annually. The performance fee is the applicable allocable net annual gain in the capital accounts exclusive of withdrawals and contributions times the incentive rate at the end of the fiscal year or portion thereof.

For separately managed accounts, advisory fees are negotiable depending upon the account size and asset classes managed and are expected to range from 0.5% to 1.5% annually based upon the value of assets under management. Seelaus AM may accept performance-based fees for its advisory services, provided such fees meet the requirements of Rule 205-3 of the Investment Advisers Act of 1940. This pertains to qualified client investors in the Ocean Partners and Seelaus Credit Opportunities funds.

Seelaus AM deducts advisory fees directly from client's accounts, or clients may choose to be billed separately for fees incurred. Clients may choose either method of payment. Seelaus AM is deemed to have custody in accounts where advisory fees are directly deducted from client's accounts. Management fees are either deducted or billed, on a quarterly basis, in advance and are based on a client's assets under management on the close of business on the last day of the prior quarter. Management fees shall be prorated for each capital contribution and withdrawal made during the applicable calendar quarter with the exception of de minimis (less than \$1,000) contributions and withdrawals. Accounts initiated during a calendar quarter will be charged a prorated fee. All investment advisory fees are negotiable.

Separately managed account clients may terminate their contracts with five days' written notice. Refunds will be given on a prorated basis, based on the number of days remaining in a quarter at the point of termination. Clients may terminate their contracts without penalty, for full refund, within five (5) business days of signing the advisory contract. Investors in Seelaus AM Private Funds may redeem their investments in accordance with the terms in each respective fund private placement memorandum, partnership agreement or offering memorandum, as applicable.

Seelaus AM reserves the right to waive all or any portion of its management or incentive fees with respect to any of its clients, whether separately managed or members of a limited partnership managed by the Firm. Any such waiver is made on a facts and circumstances basis at any time and may be on a one-time or on a permanent basis.

Separately managed account clients may pay other fees in connection with our advisory services, such as custodian fees,

mutual fund expenses, wire transfer and electronic fund fees, transfer taxes, and state and/or federal fees and taxes on partnership interest. Clients will also incur brokerage and other transaction costs. These costs are separate from any fees paid to Seelaus AM.

In general, in addition to relevant management and incentive fees, each investor in the Seelaus AM Private Funds will bear its proportionate share of the Seelaus AM Private Funds on a pro rata basis with respect to the size of its Capital Account(s)

Each of the Seelaus AM Private Funds Offering Documents specifically describe related expenses investors will bear, but in general, the Seelaus AM Private Funds operating expenses include but are not limited to the following types of expenditures without limitation:

- (a) organizational and offering expenses;
- (b) expenses associated with all investments and transactions considered, evaluated and/or consummated by the Seelaus AM Private Funds, including, without limitation, expenses associated with sourcing, negotiating, investigating, researching, financing and structuring of investments and potential investments, whether or not consummated, including third-party research, data, analytics, modeling, structuring, pricing, execution and other third-party information systems, software and service fees (including data feeds, subscriptions and reports);
- (c) expenses associated with holding, financing, monitoring, hedging, maintaining and disposing all investments of the Partnership and all transaction and other costs associated therewith;
- (d) travel and related expenses associated with investments and potential investments;
- (e) professional fees associated with investments and potential investments, including, without limitation, consulting, due diligence, investment banking, accounting, valuation, financial, legal, and other advisory fees and expenses;
- (f) transaction fees, brokerage commissions, custodial fees, clearing and settlement charges, and similar fees and expenses associated with the acquisition, disposition and settling of investments and potential investments;
- (g) expenses associated with legal and regulatory filings of the Seelaus AM Private Funds (including, without limitation, pursuant to Sections 13 and 16 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), including Form 13F and Form 13H);
- (h) administrative, custodial, appraisal, valuation, legal, regulatory, compliance, consulting, advisory and similar fees and expenses associated with the Fund’s operations, investments and transactions, including fees and expenses of the Administrator (defined below);
- (i) broken-deal, failed transaction, break-up and similar fees, costs and expenses;
- (j) costs and expenses of leverage or any other borrowings of the Seelaus AM Private Funds, including interest charges and fees;
- (k) expenses incurred in the collection of monies owed to the Seelaus AM Private Funds, as applicable;
- (l) auditing and accounting expenses of the Seelaus AM Private Funds, including expenses associated with the preparation of financial statements, tax returns and Schedules K-1 and the fees and expenses of the auditor;
- (m) any entity level taxes, fees, or other governmental charges on the Seelaus AM Private Funds, including any withholding taxes not due to the status or noncompliance of a particular investor;
- (n) costs and expenses associated with investor communications and reports and the delivery thereof to investors;

- (o) the costs of service providers or software to measure or monitor risk metrics, to aggregate positions and/or to provide reporting with respect to risk metrics and/or positions;
- (p) costs and expenses associated with any investor meetings; (q) insurance expenses, including, without limitation, directors' and officers' liability insurance, general partner liability insurance, errors and omissions insurance and other policies, if any;
- (r) costs and expenses (including entity-level taxes, fees or other governmental charges) associated with the formation, organization and operation of any subsidiary, special purpose vehicle, alternative investment vehicle, holding company, or similar entity formed with respect to investments, credit facilities or other transactions entered into for the benefit of the Seelaus AM Private Funds;
- (s) wind-up, liquidation, termination and dissolution expenses;
- (t) costs, fees and expenses related to registration, qualification and/or exemption under any applicable U.S. federal, state, local, or non-U.S. laws, rules or regulations, including blue sky fees, Form D, Form 8.3, CFTC filings and notices and other securities and/or investment-related filing expenses;
- (u) costs related to any transfers of Interests, unless otherwise charged to or borne by the applicable transferor and/or transferee;
- (v) expenses incurred in connection with the preparation of any amendment to the Offering Documents and related legal documents;
- (w) any extraordinary expenses (including all litigation-related and indemnification and contribution expenses, including the amount of any judgment or settlement paid in connection therewith);
- (x) the Management Fee; and
- (y) all other fees, costs, charges and expenses associated with the business, affairs and/or operations of the Seelaus AM Private Funds.

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

Seelaus AM charges performance fees (incentive fees) with the Seelaus Credit Opportunities Fund and Ocean Partners Funds. Seelaus AM will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisers Act of 1940 ("The Advisers Act") and will rely on available exemptions thereunder, including the exemption set forth in Rule 205-3. In measuring clients' assets for the calculation of performance-based fees, Seelaus AM includes realized and unrealized capital gains and losses. Performance-based fee arrangements create an incentive for Seelaus AM to purchase, sell, or short investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create incentives to favor higher fee-paying accounts over other accounts in the allocation of investment opportunities. Seelaus AM has implemented procedures designed to ensure that all clients are treated fairly and equally to the extent possible and practical, and to prevent this conflict from influencing the allocation of investment opportunities among clients. Seelaus AM provides asset management services on both asset fee-based and performance fee-based compensation structures. All firms providing asset management services for multiple accounts have the inherent conflict of interest that results from not being able to execute buy and sell orders simultaneously at the same price. We utilize block or bunch trade orders to minimize dispersion and the inherent conflict when trading for multiple accounts.

The conflict between having accounts with performance-based compensation fees structures and flat asset-based fees is

also minimized by bunching trades amongst accounts with similar objectives and liquidity. Seelaus AM also tracks performance dispersion on a monthly basis between accounts to ensure all accounts are being treated fairly and equitably to the extent possible and practical.

## **Item 7 Types of Clients**

Seelaus AM clientele consist of high net worth individuals, family offices, trusts, private investment partnerships for individuals and institutions, foundations, endowments, pension plans and other institutional investors, including other investment advisers. The Firm provides separate account management for individuals and institutions.

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

Seelaus AM develops a base policy mix for each client portfolio at inception. This proportional combination of assets, when combined with an appropriate portfolio structure, reflects the unique investment needs of each client. Seelaus AM then uses tactical asset allocation (the act of making calculated changes to the base policy mix) to take advantage of relative value investment opportunities as they arise.

Seelaus AM is an active investment manager that seeks to outperform its benchmarks on a risk adjusted basis, by relying on the analytical skills, experience, and prudent judgment of its senior professionals. This is in contrast to a passive manager that seeks only to match the performance of a benchmark index. Active management at Seelaus AM does not involve excessive trading.

Seelaus AM invests in publicly traded stocks options, bonds, ETFs, mutual funds, preferred stocks, high yield corporate bonds and other securities. Clients should keep in mind that investing in securities involves the risk of loss and clients should be prepared to bear losses. Clients can lose money even when invested in conservative strategies. Clients should also keep in mind that past performance is not indicative of future results.

### **Private Funds**

Seelaus AM advises the Seelaus AM Private Funds. While the methods of fundamental analysis are the same across the private funds (bottom up investment analysis), the investment strategies differ.

#### **Granite Springs Total Return Master Fund, LP.**

Granite Springs Total Return Master Fund, LP is a long-only credit fund. The investment team utilizes a variety of strategies in predominantly investment grade credit markets (targeted portfolio-weighted average rating of Baa2/BBB, below B2/B not permitted) to exploit credit inefficiencies arising from dynamic market conditions and valuation anomalies. The strategy seeks to hedge interest rate exposure while actively managing credit and sector exposures (10% limit on a single issuer, 25% maximum by industry). Eligible investments in the fund include corporate credits, preferred securities, emerging markets and sovereign debt.

#### **Seelaus Credit Opportunities Fund LP and Seelaus Credit Opportunities Offshore Fund Ltd.**

The Seelaus Credit Opportunities Fund LP and its feeder fund Seelaus Credit Opportunities Offshore Fund Ltd. Collectively are a long-short investment grade credit hedge fund. The investment team utilizes active hedging of interest rate risk and long/short credit exposure which results in a low correlation to traditional long-only fixed income products and provides diversification for investors.

#### **Ocean Partners, LLC**

Ocean Partners, LLC is an equity long-short fund pursuing an absolute return strategy. The fund has a concentrated, long-biased equity portfolio (50 positions or fewer) and expresses short positions through market indices or individual stocks



to reduce market/portfolio risk.

### **Sunnymeath Partners LLC**

Sunnymeath Partners LLC is a fund pursuing an income strategy. The fund seeks income generating opportunities through its holdings of dividend paying common stocks, convertible and preferred issues, corporate bonds (short-term and high yield), municipal bonds and US Treasury and Agency bonds.

### **Navesink River Partners, LP**

Navesink River Partners, LP pursues a growth strategy by seeking opportunities in holdings of common stocks, convertible issues and preferred stocks.

### **Edgewood Partners, LP**

Edgewood Partners, LP is a balanced fund pursuing a growth and income strategy. The fund seeks opportunities for growth and income through its holdings of common stocks, convertible and preferred issues and corporate bonds (short-term and high yield).

## **Seelaus AM Strategies**

### **Intermediate Municipal Bond Strategy**

Seelaus AM advises an Intermediate Municipal Bond Strategy, an investment grade (BBB- rated or higher, average rating is A) strategy focused on the intermediate part of the curve, with final maturities no longer than 15 years. Portfolio duration is 3.25 to 5.75 years and issue concentrations are limited to 3%-6%. The strategy is diversified through sectors, issuers, regions and bond types with out of state bonds considered on an after-tax basis.

### **High Yield Strategy**

Seelaus AM advises a High Yield Strategy, utilizing high yield and investment grade bonds, preferred stocks, and bond ETFs to create an income producing portfolio. The portfolio is diversified using rigorous credit and relative-value analysis to find undervalued securities, the investment team may also opportunistically trade on a shorter term basis to capitalize on specific market events including M&A transactions, calls and tenders, and rating changes.

### **Tactical MBS Strategy**

Seelaus AM advises a Tactical MBS Strategy, an investment grade strategy seeking to create uncorrelated high risk-adjusted returns with a core allocation of approximately 50% Agency MBS/CMO, guaranteed by the US Government or its Agencies.

### **Equity Portfolio Management**

Within our Equity Portfolio Management division, Seelaus AM's equity offering uses a bottom-up investment analysis method for securities in the client accounts it manages. Generally, we start out with Russell 3000 companies and look for companies with below market price-earnings ratio, price-to-cash flow ration and higher Return on Equity and Return On Invested Capital. The manager then utilizes fundamental research to assess Debt to Free Cash Flow ratio generation and compares the companies versus their peers. Subsequently, additional due diligence is performed on company management, research reports, 10Qs and 10Ks, company presentations are reviewed. If the Firm believes there is an investment catalyst present, we will determine the risk/reward potential. Ultimately, a price target is set at which point the manager will buy an initial position of 1-3% within an asset class. Seelaus AM owns over 65 companies in long-term accounts for which employees are actively monitoring those current holdings for purchase and has an informal watch list of 100+ additional companies.

### **Gender Equality Matters (GEM) Strategy**

Seelaus AM advises a GEM Strategy, an equity strategy focused on investing in companies that are leaders in promoting

gender diversity within their board of directors and management teams.

### **Support Housing Equality (SHE) MBS Strategy**

Seelaus AM advises an Impact MBS Strategy that seeks to make a positive social impact by investing a portfolio of securities which providing mortgage finance to low-income communities, rural areas, US veterans and activity military families. Our team of experts builds a bespoke portfolio of Agency MBS bonds guaranteed by US Government and Quasi Government entities that offers investors a safe, liquid and customizable high-quality investment alternative. In addition to capitalizing on a sound investment opportunity, this strategy provides a significant societal impact by choosing securities backed by specific lending programs designed to provide affordable housing financing for families considered low-income, rural and/or veterans/active military, as well as homeowners who have struggled to stay current on their mortgage and had their mortgage modified in an effort to keep them in their homes.

### **Special Purpose Acquisition Company (SPAC) Strategy**

Seelaus AM advises a Special Purpose Acquisition Company Strategy that provides exposure to diversified portfolio of US-listed Special Purpose acquisition Companies (SPACs) through Separately Managed Accounts (SMAs). The strategy's objective is to provide asymmetrical risk-return opportunities by investing in SPACs that have not yet announced an acquisition/merger target while fully exiting SPAC positions once an announcement of an acquisition or merger has been made. This approach attempts to capture equity market optionality while minimizing downside risk. The strategy targets a diversified basket of between 20-40 SPAC positions in each SMA as well as investment in SPAC warrants, SPAC ETFs and SPAC options (collectively "SPAC related securities").

## **Risks**

Investing in securities involves the possibility of a risk of loss. Although Seelaus AM maintains a disciplined financial strategy designed to limit investment losses, it cannot eliminate the risk of loss in its entirety. Clients can lose money even when invested in conservative strategies. Clients should also keep in mind that past performance is not indicative of future results and changes in economic or market conditions can have a material impact on the value of their portfolios. Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by Seelaus AM) will be profitable or equal any specific performance level(s).

Seelaus AM's investment approach and the use of derivatives, equity and fixed income securities have different risk profiles. Before investing on behalf of a client, Seelaus AM reviews the client's risk profile, financial situation, investment objective and time horizon. These risks are dependent on the specific client portfolio and may include but are not limited to the following risks:

## **Strategy Related Risks**

### **Asset Allocation Risk**

The amount invested in various asset classes of securities may change over time, clients are subject to the risk that Seelaus AM may allocate assets to an asset class that under performs other asset classes.

### **Below Investment Grade Bond Risk**

Below investment grade bonds, otherwise known as high yield bonds ("junk bonds"), generally have a greater risk of principal loss than investment grade bonds. Below investment grade bonds are often considered speculative and involve significantly higher credit risk and liquidity risk. The value of these bonds may fluctuate more than the value of higher-rated debt obligations, and may decline significantly in periods of general economic difficulty or periods of rising interest rates.

### **Call Risk**

Call risk is the risk that a bond issuer will redeem its callable bonds before they mature. Call risk is greater during periods of falling interest rates because the bond issuer can call the debt and reissue the debt at a lower rate. This action may reduce the client's income because it may have to reinvest the proceeds at lower interest rates.

### **Credit Risk**

Credit risk is the risk that the issuer of the debt obligation will be unable to make interest or principal payments on time. A decrease in an issuer's credit rating may cause a decline in the value of the debt obligations held.

### **Derivatives Risk**

The use of derivatives, such as futures, forwards, options and swaps, involves risks different from, or possibly greater than the risks associated with investing directly in securities. Prices of derivatives can be volatile and may move in unexpected ways, especially in unusual market conditions. Some derivatives are particularly sensitive to changes in interest rates. In addition, there may be imperfect or even negative correlation between the price of the derivatives contract and the price of the underlying securities. Other risks arise from the potential inability to terminate or sell derivative positions. Further, derivatives could result in loss if the counterparty to the transaction does not perform as promised.

### **Hedging Risk**

Derivatives used to hedge a position or a portfolio may not provide an effective hedge of the underlying securities or indices because changes in the prices of derivatives may not track those of the securities or indices they are intended to hedge.

### **Interest Rate Risk**

The value of debt obligations will typically fluctuate with interest rate changes. These fluctuations can be greater for debt obligations with longer maturities. When interest rates rise, debt obligations will generally decline in value, a result of which could be money lost. Periods of declining or low interest rates may negatively impact a client's yield.

### **Inverse Floaters and Inverse Interest-Only ("IOs")**

Clients will be exposed to additional risk to the extent that Seelaus AM uses inverse floaters and inverse IOs, which are debt securities with interest rates that reset in the opposite direction from the market rate to which the security is indexed. These securities are more volatile and more sensitive to interest rate changes than other types of debt securities. If interest rates move in a manner not anticipated by Seelaus AM, clients could lose all or substantially all of its investment in inverse IOs.

### **Liquidity Risk**

Liquidity risk is the risk that holdings which are considered to be illiquid may be difficult to value. Illiquid holdings also may be difficult to sell, both at the time or price desired.

### **Mortgage-Backed Securities ("MBS") Risk**

The value of mortgage-backed securities (commercial and residential) may fluctuate significantly, in response to changes in interest rates. In periods of falling interest rates, underlying mortgages may be paid early, lowering the potential total return, and, during periods of rising interest rates, the rate at which the underlying mortgages are pre-paid may slow unexpectedly, causing the maturity of the mortgage-backed securities to increase and their value to decline.

### **Odd Lot Risk**

Smaller size MBS collateralized mortgage obligation ("CMO") bonds, (e.g. "odd lots") typically trade at a discount compared to larger sized bonds (e.g. "round lots"). Buying a bond at a discount provides a greater return than non-discounted bonds when held to maturity (all other things being equal). However, typically there is a corresponding discount the seller must absorb when selling odd lots prior to maturity. Further, while market participants recognize "odd lot" dynamics, third-party pricing vendors frequently do not. Seelaus AM and its custodians rely on these vendors for portfolio valuations. Clients can view their portfolio by accessing their accounts through their custodian's website or on

their monthly statements provided by their custodian.

When a client owns “odd lots” in their portfolio, the valuation provided by the custodian may be inflated because the third-party pricing vendor may be valuing those securities as if they were “round lots”. When these “odd lots” are sold, the client may receive less than the valuation provided by the custodian.

### **Prepayment Risk**

The issuer of certain securities may repay principal in advance, especially when yields fall. Changes in the rate at which prepayments occur can affect the return on investment of these securities. When debt obligations are prepaid or when securities are called, Seelaus AM may have to reinvest in securities with a lower yield. Seelaus AM also may fail to recover additional amounts (i.e., premiums) paid for securities with higher coupons, resulting in an unexpected capital loss.

CMOs and stripped mortgage-backed securities, including those structures as IOs and principal-onlys (“POs”), are more volatile and may be more sensitive to the rate of prepayments than other mortgage related securities. The structure of some of these securities may be complex and there may be less available information than other types of debt securities.

Principal-Only is created by splitting a mortgage-backed security into its interest and principal payments. The principal payments create a string of cash flows which are sold at a discount to investors. These investors will receive the principal portions of the monthly mortgage payments from the underlying pool of loans. The yield on a PO strip depends on the prepayment speed of the underlying loan. The faster the principal is repaid, the higher the yield an investor will receive. The slower the principal is repaid, the lower the yield an investor will receive. PO bonds receive the entire mortgage principal and only the mortgage principal.

- PO bonds have a known dollar amount but an unknown timing.
- The PO bonds will be sold to investors at a discount to the gross principal balance; the discount amount will be based on the level of interest rates and prepayment speed.
- Generally, PO strip bonds are more volatile than conventional MBS.
- Declining interest rates cause prepayments to decelerate and increases the discount rate applied to cash flows, thus lowering the PO price.
- The yield on PO strips varies based on the prepayment speed. The higher the prepayment, the faster the principal is repaid, and the higher the yield is for investors.

Interest-Only portion of the mortgage, Treasury or bond payments, which is separated and sold individually from the principal portion of those same payments. An IO bond might be part of a larger CMO, asset-backed security (“ABS”) or collateralized debt obligation (“CDO”) structure. IO bond investors receive only the interest component of the mortgages in the security pool.

- Assuming that a mortgage is held to maturity, the IO payments would be very high in the early years and very low in the later years.
- High prepayments tend to reduce IO values.
- As interest rates decline and prepayments increase, less dollars of interest are paid to IO investors, so IO prices can drop when interest rates decline.
- As interest rates increase, prepayments decrease, so mortgages last longer and the total dollars paid to IO holders rises; therefore, IO prices can rise when interest rates rise.

### **Special Purpose Acquisition Companies (SPACs)**

A special purpose acquisition company (a “SPAC”) is a publicly traded company formed for the purpose of raising capital

through an initial public offering to fund the acquisition, through a merger, capital stock exchange, asset acquisition or other similar business combination, of one or more undervalued operating businesses. Following the acquisition of a target company, a SPAC typically would exercise control over the management of such target company in an effort to increase the value of such target company. Capital raised through the initial public offering of securities of a SPAC is typically placed into a trust until the target company is acquired or a predetermined period of time elapses. Investors in a SPAC would receive a return on their investment in the event that a target company is acquired and such target company's value increased. In the event that a SPAC is unable to locate and acquire target companies by the deadline, the SPAC would be forced to liquidate its assets, which may result in losses due to the expenses and liabilities of the SPAC. Investors in a SPAC are subject to the risk that, among other things, (i) such SPAC may not be able to locate or acquire target companies by the deadline, (ii) assets in the trust may be subject to third-party claims against such SPAC, which may reduce the per share liquidation price received by the investors in the SPAC, (iii) such SPAC may be exempt from the rules promulgated by the SEC to protect investors in "blank check" companies, such as Rule 419 promulgated under the Securities Act, so that investors in such SPAC may not be afforded the benefits or protections of those rules, (iv) such SPAC may only be able to complete one business combination, which may cause it to be solely dependent on a single business, (v) the value of any target company may decrease following its acquisition by such SPAC, (vi) the value of the funds invested and held in the trust decline, (vii) the inability to redeem due to the failure to hold the securities in the SPAC on the record date or the failure to vote against the acquisition and (viii) if the SPAC is unable to consummate a business combination, public stockholders will be forced to wait until the deadline before liquidating distributions are made. In addition, most SPACs are illiquid and have a concentrated shareholder base that tends to be comprised of hedge funds (at least at inception). Seelaus AM may cause clients to invest in a SPAC that, at the time of investment, has not selected or approached any prospective target businesses with respect to a business combination. In such circumstances, there may be limited basis for the Seelaus AM to evaluate the possible merits or risks of such SPAC's investment in any particular target business. To the extent that a SPAC completes a business combination, it may be affected by numerous risks inherent in the business operations of the acquired company or companies. For these and additional reasons, investments in SPACs are speculative and involve a high degree of risk.

### **Specific Private Fund Risks**

#### **Seelaus Credit Opportunities Fund LP with its feeder fund Seelaus Credit Opportunities Offshore Fund Ltd.**

The Seelaus Credit Opportunities Fund, LP is a long-short investment grade credit hedge fund. The investment team utilizes active hedging of interest rate risk and long/short credit exposure which results in a low correlation to traditional long-only fixed income products and provides diversification for investors.

Risk Factors for subscribers to Seelaus Credit Opportunities Fund, LP include but are not limited to:

#### **General Investment and Trading Risks.**

All securities investments present a risk of loss of capital. Volatile financial markets increase that risk. If the Investment Manager's evaluation of an investment opportunity should prove incorrect, the Partnership could experience losses as a result of a decline in the market value of securities in which the Partnership holds a long position or an increase in the value of securities in which the Partnership holds a short position. The Partnership's investment program will include short sales, which can involve substantial volatility and can, in certain circumstances, substantially increase the adverse impact to which the Partnership may be subject. The risk management techniques that may be used by the Investment Manager do not provide any assurance that the Partnership will not be exposed to a risk of significant investment losses. No guarantee or representation is made that the Partnership's investment program will be successful, that the Partnership will achieve its targeted returns or that there will be any return of capital invested to investors in the Partnership. In addition, investment results may vary substantially over time.

#### **General Economic Conditions.**

The success of the Partnership's activities will be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of the Partnership's investments), tax considerations and tax treatment, trade barriers, currency exchange controls and national and international political circumstances (including wars, terrorist acts and security operations). These factors may affect the level and volatility of the prices and liquidity of the Partnership's investments and could impair the Partnership's profitability or result in losses. The Investment Manager may consider some or all of these factors when making trading decisions. The Partnership could incur material losses even if the Investment Manager reacts quickly to difficult market conditions, and there can be no assurance that the Partnership will not suffer material losses and other adverse effects from broad and rapid changes in market conditions in the future. Limited Partners should realize that markets for the financial instruments in which the Partnership will seek to invest can correlate strongly with each other at times or in ways that are difficult for the Investment Manager to predict. Even a well-analyzed approach may not protect the Partnership from significant losses under certain market conditions.

#### **Availability of Suitable Investments.**

The success of the Partnership's investment and trading activities depend on the ability of the Investment Manager to identify overvalued and undervalued investment opportunities and to manage market exposure risk. Identification and exploitation of the investment strategies to be pursued by the Partnership involve a high degree of uncertainty. No assurance can be given that the Investment Manager will be able to identify suitable investment opportunities in which to deploy all of the Partnership's capital. A reduction in overall market volatility and liquidity, as well as other market factors, may reduce the pool of profitable investments for the Partnership. Certain of the investment strategies employed by the Partnership may be based on historical relationships among securities prices, exchange rates, interest rates and bond prices. There can be no assurance that these historical relationships will continue, and no representation is made by the Investment Manager as to what results the Partnership will or is likely to achieve based on these trends and relationships.

#### **General Credit Risks; Credit Opportunities.**

The Partnership intends to invest primarily in credit opportunities, a portion of which may be less liquid, illiquid and/or distressed. In addition, the Partnership may invest in other debt instruments or obligations that are not secured by collateral, and, thereby, the Partnership may be exposed to losses resulting from default and foreclosure of any such investments. Therefore, the value of underlying collateral, if any, the creditworthiness of borrowers and the priority of liens are each of great importance in determining the value of the Partnership's investments. No guarantee can be made regarding the adequacy of the protection of the Partnership's security, if any, in the debt instruments in which it invests. Moreover, in the event of foreclosure, the Partnership or an affiliate thereof may assume direct ownership of any assets collateralizing such foreclosed loans. The liquidation proceeds upon the sale of such assets may not satisfy the entire outstanding balance of principal and interest on such foreclosed loans, resulting in a loss to the Partnership. Any costs or delays involved in the effectuation of loan foreclosures or liquidation of the assets collateralizing such foreclosed loans will further reduce proceeds associated therewith and, consequently, increase possible losses to the Partnership. In addition, no assurances can be made that borrowers or third parties will not assert claims in connection with foreclosure proceedings or otherwise, or that such claims will not interfere with the enforcement of the Partnership's rights.

#### **Credit Risk and Credit Ratings.**

The Investment Manager does not believe that credit ratings should be used as the sole method of evaluating creditworthiness, as such ratings represent only the opinions of the relevant rating agency as to credit quality and are not absolute standards. In addition, ratings agencies may fail to change credit ratings in a timely fashion to reflect events since a security was last rated. "Investment-grade" debt securities are those debt securities that are rated by one or more nationally recognized statistical rating organizations ("NRSROs") within one of the four highest long-term quality grades at the time of purchase (e.g., AAA, AA, A or BBB by Standard & Poor's Ratings Services or Fitch, Inc. or Aaa, Aa, A or Baa by Moody's Investors Service, or in the case of unrated securities, determined by the Investment Manager to be of



comparable quality. For purposes of any minimum or average rating requirements set forth in this Memorandum that are based upon an NRSRO's ratings categories, (1) if no sub-categories or gradations are specified the requirement is determined without regard to such sub-categories and gradations, (2) the rating assigned by any one NRSRO may be deemed sufficient, even if one or more other NRSROs may have assigned a lower rating, and (3) if a particular debt security is not rated by an NRSRO, the Investment Manager's determination that the security has credit characteristics comparable to those of a particular ratings category shall be sufficient to treat the security as if it had been rated as such by an NRSRO.

### **Issuer's Inability to Pay Obligations.**

The Partnership will invest in corporate debt obligations, which are subject to the risk of an issuer's inability to meet principal and interest payments on the obligations, therefore creating credit risk. There can be no guarantee that the Investment Manager will be successful in making the right selections and thus fully mitigate the impact of credit risk.

### **Securities of High Yield Companies.**

Special risks may arise if the Partnership invests in the securities of "high yield" and highly leveraged companies. Although such investments may result in significant returns to the Partnership, they involve a substantial degree of risk. If the "natural leverage" created by a company's high level of borrowing work against a Partnership short position, the Partnership's losses would be heightened. If the Partnership purchases distressed and/or non-performing debt securities, and subsequent to purchasing them finds that they are no longer readily traded by broker-dealers, these securities may not show any return for a considerable period of time. Many distressed and/or non-performing securities ordinarily remain unpaid while the company is in bankruptcy and may not ultimately be paid unless and until the company reorganizes and/or emerges from bankruptcy proceedings. As a result, if they are no longer readily traded by broker-dealers, such securities may have to be held for an extended period of time. There is no assurance that the Investment Manager will correctly evaluate the nature and magnitude of the various factors that could affect the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which the Partnership invests, the Partnership may lose its entire investment. Under such circumstances, the returns generated from the Partnership's investments may not compensate the Limited Partners adequately for the risks assumed.

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

### **Priority of Debt Instruments.**

The Partnership may invest in secured debt issued by companies that have or may incur additional debt that is senior to the secured debt owned by the Partnership. In many instances, loans purchased by the Partnership may be part of a unitranche structure in which a single lien on behalf of all the lenders in the structure will be filed against the assets of the company if the lenders holding the different tranches of debt (including the Partnership) will contractually agree to their respective priorities in those assets. In the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of any such company, the owners of senior secured debt (*i.e.*, the owners of first priority liens), including in a unitranche structure through the contractual agreements between the lenders, generally will be entitled to receive proceeds from any realization

of the secured collateral until they have been reimbursed. At such time, the owners of junior secured debt (including, in certain circumstances, the Partnership) will be entitled to receive proceeds from the realization of the collateral securing such debt. There can be no assurances that the proceeds, if any, from the sale of such collateral would be sufficient to satisfy the loan obligations secured by subordinate debt instruments. To the extent that the Partnership owns secured debt that is junior to other secured debt, the Partnership may lose the value of its entire investment in such secured debt.

### **Interest Rate Risk; Prepayment.**

The Partnership may invest in fixed interest rate debt instruments. The value of fixed interest rate debt instruments generally has an inverse relationship with future interest rates. Accordingly, if interest rates rise, the value of such instruments may decline. In addition, to the extent that the receivables or loans underlying specific financial instruments may be prepaid without penalty or premium, the value of such financial instruments may be negatively affected by increasing prepayments. Such prepayments tend to occur more frequently as interest rates decline.

### **Equitable Subordination.**

Under the laws of certain jurisdictions, a court may use its equitable powers to subordinate the claim of a lender to some or all of the other claims against the borrower under certain circumstances. The concept of equitable subordination is that a claim may normally be subordinated only if its holder is guilty of some misconduct. The remedy is intended to be remedial, and not penal. In determining whether equitable subordination of a claim is appropriate in any given circumstance, courts may look to whether the following conditions have been satisfied: (i) whether the claimant has engaged in some type of inequitable conduct; (ii) whether the misconduct has resulted in injury to the creditors of the bankrupt company or conferred an unfair advantage on the claimant; and (iii) whether equitable subordination would be inconsistent with other applicable provisions of the bankruptcy code. While the stated test could be interpreted broadly, equitable subordination is usually confined to three general paradigms: (x) when a fiduciary of the debtor (who is also a creditor) misuses its position to the detriment of other creditors; (y) when a third party (which can include a lender) controls the debtor to the disadvantage of other creditors; and (z) when a third party actually defrauds other creditors. The Partnership may be subject to claims from creditors of an obligor that debt assets of such obligor, which are held by the Partnership, should be equitably subordinated. The concept of equitable subordination (or the equivalent thereof) may vary from jurisdiction to jurisdiction.

### **Concentration of Investments; Limited Diversification and Sector Investing.**

The Partnership's portfolio of investments is expected to be concentrated in the global credit markets. Accordingly, the Partnership is exposed to the risk of adverse developments in or affecting these industries to a greater extent than if its investments were diversified over a larger number of issuers and industries. The Partnership may hold a limited amount of positions (both long and short) at any given time and the Partnership may hold relatively large positions in few securities. As a result of the Partnership's possible lack of diversification, a significant loss in any one position may have a material adverse effect on the net asset value of the Partnership's rate of return. Therefore, any fluctuation in the overall value of securities in specific markets, industries or sectors likely will have a material effect on the performance of the Partnership. The Investment Manager's specialized investment strategy and potential lack of diversification may be more vulnerable to changes in the economy or those industries or other factors than a broad-based portfolio, and, as a result, performance results may be highly volatile and may result in the Partnership significantly outperforming, or under-performing, the market as a whole.

### **Equity Securities.**

Although the Partnership will trade primarily in debt securities, the Partnership also may invest in equity and equity-related securities, including, without limitation, equity investments acquired in connection with restructured debt securities or instruments, or in connection with reorganizations and/or restructurings of debt securities, equity securities or other obligations and assets of undervalued, operationally challenged and/or financially troubled companies or institutions. A risk



of investing in the Partnership is that equity securities held by the Partnership may decline in value. Equity securities fluctuate in value in response to many factors, including the activities and financial condition of individual companies, the business market in which individual companies compete, industry market conditions, interest rates and general economic environments. In addition, equity securities that the Investment Manager believes are undervalued or incorrectly valued may not ultimately be valued by the markets in the manner that the Investment Manager anticipates.

### **Debt Securities.**

The Partnership intends to invest in debt or other fixed income securities, including non-investment grade securities, and similar obligations and instruments. Particularly with respect to non-investment grade securities, there is a risk that the issuer will default on its payment obligations. The market values of debt instruments may be more volatile than the values of other investments and, during periods of economic uncertainty and change, the market price of these investments may decrease significantly. Debt instruments may also be less liquid than equities, particularly during periods of market dislocation. The lack of a liquid secondary market may have an adverse effect on the market price and the Partnership's ability to sell particular securities.

### **U.S. Government Securities.**

The Partnership may invest in U.S. Government securities. Generally, these securities include U.S. Treasury obligations and obligations issued or guaranteed by U.S. Government agencies, instrumentalities or sponsored enterprises. U.S. Government securities also include Treasury receipts and other stripped U.S. Government securities, where the interest and principal components of stripped U.S. Government securities are traded independently. These securities are subject to market and interest rate risk. The Partnership may also invest in zero coupon U.S. Treasury securities and in zero coupon securities issued by financial institutions, which represent a proportionate interest in underlying U.S. Treasury securities. A zero-coupon security pays no interest to its holder during its life. The market prices of zero-coupon securities generally are more volatile than the market prices of securities that pay interest periodically.

### **Short Sales.**

Short selling involves selling securities that may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from a decline in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. However, since the borrowed securities must be replaced by purchases at market prices to close out the short position, any appreciation in the price of the borrowed securities would result in a loss. A short sale involves the risk of a theoretically unlimited increase in the market price of the security. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

In addition, short sellers are subject to the risk of a "short squeeze." A short squeeze is a situation in which the short seller is prematurely forced out of a short position. The lender of a security used to cover a short generally has the right to demand the return of the security that has been loaned at any time. If a lender were to demand the return of securities that the Partnership had borrowed, the Partnership would be required to replace the borrowed securities by borrowing identical securities from another lender. If the Partnership were unable to replace the borrowed securities, it would be required to close out the short sale by buying identical securities in the market to make delivery. In such event, the Partnership could incur significant losses if the securities sold short had increased in value.

The Partnership also could be forced to close out a short sale prematurely as a result of an increase in margin requirements, coupled with an inability to provide the required additional margin on short notice. In addition, the cost to borrow securities in connection with short sales may be significant.

### **Leverage.**

The Partnership may employ leverage in connection with its investment strategies or for any other purpose deemed necessary, desirable or appropriate at such times, in such amounts and subject to such terms and conditions as the Investment Manager may determine in its sole and absolute discretion. Such leverage may take a variety of forms, including loans, repurchase agreements, derivative instruments that are inherently leveraged, margin borrowing from securities brokers and dealers and other financing arrangements, as determined by the Investment Manager in its sole and absolute discretion. The use of leverage increases both the possibility for gain and the risk of loss. Leverage may be secured by the Partnership's securities and other assets. Under certain circumstances, a lender may demand an increase in the collateral that secures such obligations, and if the Partnership is unable to provide additional collateral, the lender could liquidate assets held in the account to satisfy such obligations. Liquidation in that manner could have extremely adverse consequences. In addition, the amount of the Partnership's borrowing and the interest rates on that borrowing, both of which will fluctuate, may have an effect on the Partnership's profitability.

### **Hedging.**

The Partnership may engage in certain hedging transactions, including derivatives, options and swaps. Hedges can be more difficult to implement than many other types of transactions, and the possibilities for errors may be greater than for other transactions. Additionally, there is no guarantee that these hedging transactions will prevent losses to the Partnership. The success of the Partnership's hedging strategy will be subject to the Investment Manager's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the Partnership's hedging strategy will also be subject to the Investment Manager's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. In addition, hedging transactions may result in poorer overall performance for the Partnership than if no such hedging transactions were executed. Moreover, the Investment Manager may determine not to hedge against, or may not anticipate, certain risks. Finally, the Partnership may be exposed to certain risks that cannot be hedged, such as credit risk (relating both to particular investments and counterparties).

### **Derivatives.**

The Partnership may invest in derivative financial instruments. In addition, the Partnership may, from time to time, utilize both exchange-traded and over-the-counter futures, options and contracts for differences, for hedging purposes, as well as other derivatives. Regulatory restraints may restrict the instruments that the Partnership may trade. Such derivative instruments are highly volatile, involve certain special risks and expose investors to a high risk of loss. The low initial margin deposits normally required to establish a position in such instruments permit a high degree of leverage. As a result, a relatively small movement in the price of a contract may result in a gain or a loss which is high in proportion to the amount of funds actually placed as initial margin, and may result in unquantifiable further losses exceeding any margin deposited. Further, when used for hedging purposes, there may be an imperfect correlation between these instruments and the investments or market sectors being hedged.

### **Credit Derivatives.**

The Partnership may invest in credit derivatives. Credit derivatives are contracts that transfer price, spread and/or default risks of debt and other instruments from one party to another. Such instruments may include one or more debtors. Payments under credit derivatives may be made during the exercise period of the contracts. Payments under many credit derivatives are triggered by credit events such as bankruptcy, default, restructuring, failure to pay, cross default or acceleration, etc. Such payments may be for notional amounts, actual losses or amounts determined by formula. The market for credit derivatives is somewhat illiquid and there are considerable risks that it may be difficult to either buy or sell the contracts as needed or at reasonable prices. Sellers of credit derivatives carry the inherent price, spread and default risks of the debt instruments covered by the derivative instruments. Buyers of credit derivatives carry the risk of non-performance by the seller due to inability to pay. There are also risks with respect to credit derivatives in determining whether an event will

trigger payment under the derivative and whether such payment will offset the loss or payment due under another instrument. In the past, buyers and sellers of credit derivatives have found that a trigger event in one contract may not match the trigger event in another contract, exposing the buyer or the seller to further risk.

### **Securities Lending and Borrowing.**

The Partnership may lend securities to securities brokers and other institutions as a means of earning additional income, or may borrow securities from securities brokers or other institutions to cover short positions. The cost of such borrowing may be significant. If the other party to such transaction becomes insolvent or bankrupt, the Partnership could experience delays and extra costs in recovering payment or the securities. To the extent that, in the meantime, the value of securities changes, the Partnership could experience further losses. Security loans must be fully collateralized, and the Investment Manager must be satisfied with the creditworthiness of the other party to the transaction.

### **Possible Illiquidity of Investments; Investments in Restricted Securities.**

The Partnership may invest in private deals, the securities of which are not traded on public exchanges and are subject to restrictions on sale because they were acquired from the issuer in “private placement” transactions or because the Partnership is deemed to be an affiliate of the issuer. Generally, the Partnership cannot sell these restricted securities publicly in the United States without the expense and time required to register the securities under the Securities Act and may not otherwise sell such securities in the United States unless such sale is exempt from registration under the applicable provisions of the Securities Act. Any such market or legal restrictions, or any contractual transfer limitations, on the Partnership may result in the relative illiquidity of certain of the Partnership’s investments, preventing or delaying any sale thereof or reducing the amount of proceeds that might otherwise be realized from their sale, and resulting in the General Partner potentially designating such investments as illiquid.

### **Competition.**

The securities industry is extremely competitive. The Investment Manager will compete for investment opportunities against various other investors, including many of the larger securities and investment banking firms, which have substantially greater financial resources and research staffs. Competitive investment activity by other firms may reduce the Partnership’s opportunity for profit by reducing the availability of or increasing the price of what the Partnership believes to be, based on its investment criteria, exceptional investment opportunities.

### **Securities Market Volatility.**

Securities markets are volatile and may decline significantly in response to adverse issuer, political, regulatory, market or economic developments. Different parts of the market and different types of debt and equity securities may react differently to these developments. For example, small cap stocks may react differently than large cap stocks. Issuer, political or economic developments may affect a single issuer, issuers within an industry, sector or geographic region, or the market as a whole.

### **Risk of Operations/Liquidity Risks.**

Although a significant portion of the securities that the Partnership will acquire will be traded on public exchanges, each exchange typically has the right to suspend or limit trading in all securities that it lists. Such a suspension could render it difficult or impossible for the Partnership to liquidate its positions and would thereby expose it to losses. In addition, some of the securities in which the Partnership may invest may be thinly traded, potentially making it difficult for the Partnership to dispose of a position at the time or price desired. Moreover, in periods of extreme market volatility, the bid/ask spreads for some securities that ordinarily are liquid may widen, making it difficult or undesirable to sell the securities. There can be no assurance that the trading markets will remain liquid enough for management to close out existing positions at any

time there is a need to do so.

### **Company Capitalization.**

The Partnership may invest in securities of companies with various capitalizations where such companies meet the investment criteria described herein. While such companies may provide significant potential for appreciation, such investments, particularly small-capitalization securities, involve higher risks in some respects than do investments in securities of larger companies. The prices of small capitalization and even medium-capitalization and mid-capitalization securities are often more volatile than prices of large capitalization securities and the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to long investors) is higher than for larger, “blue-chip” companies. In addition, due to thin trading in some small-, mid- and medium-capitalization securities, an investment in those securities may be illiquid. The small-, mid- and medium-capitalization securities may, at times, significantly underperform the large capitalization securities and may do so in the future. A related concern for short sale risk is that smaller companies tend to be more readily acquired.

### **Securities of Sub-Investment Grade Companies.**

Special risks may arise if the Partnership invests in the securities of sub-investment grade and highly-leveraged companies. Although such investments may result in significant returns to the Partnership, they involve a substantial degree of risk. If a company’s high level of borrowing works against a Partnership short position, the Partnership’s losses would be heightened. If the Partnership purchases distressed and/or non-performing debt securities, and subsequent to purchasing them finds that they are no longer readily traded by broker-dealers, these securities may not show any return for a considerable period of time. Many distressed and/or non-performing securities ordinarily remain unpaid while the company is in bankruptcy and may not ultimately be paid unless and until the company reorganizes and/or emerges from bankruptcy proceedings. As a result, if they are no longer readily traded by broker-dealers, such securities may have to be held for an extended period of time. There is no assurance that the Investment Manager will correctly evaluate the nature and magnitude of the various factors that could affect the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which the Partnership invests, the Partnership may lose its entire investment. Under such circumstances, the returns generated from the Partnership’s investments may not compensate the Limited Partners adequately for the risks assumed.

### **Special Situation Investments.**

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

### **Borrowing; Interest Rates; Margin.**

The General Partner and/or the Investment Manager may borrow funds from brokerage firms and banks on behalf of the Partnership to be able to increase the amount of capital available for marketable securities investments. The rates at which the Partnership can borrow, in particular, will affect the operating results of the Partnership. Even if the Partnership makes a profit on a trade, the interest expense incurred in carrying the position may exceed the profit generated by the trade. Any use of short-term borrowings or repurchase agreements will result in certain additional risks to the Partnership. For example, should the securities pledged to brokers to secure the Partnership’s margin accounts or repurchase obligation

decline in value, the Partnership could be subject to a “margin call,” pursuant to which the Partnership must either deposit additional funds with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden drop in the value of the Partnership’s assets, the Partnership might not be able to liquidate assets quickly enough to pay off its margin debt.

### **Institutional Risks.**

Institutions will have custody of the assets of the Partnership. Certain assets of the Partnership will be exposed to the credit risk of the dealers, brokers and exchanges through which the Investment Manager deals, whether the Investment Manager engages in exchange-traded or off-exchange transactions. These firms and/or financial institutions, regardless of how large or well-capitalized, may encounter financial difficulties that impair the operating capabilities or the capital position of the Partnership. If any broker-dealer or other financial institution holding the Partnership’s assets were to become bankrupt or insolvent, it is possible that the Partnership would be able to recover only a portion, or in certain circumstances, none of its assets held by such bankrupt or insolvent entity.

### **Counterparty Risk.**

Brokers may trade with an exchange as principals on behalf of the Partnership, in a “debtor-creditor” relationship, unlike other clearing broker relationships where the broker is merely a facilitator of the transaction. Such broker could, therefore, have title to all of the assets of the Partnership (for example, the transactions that the broker has entered into on behalf of the Partnership as principal as well as the margin payments that the Partnership provides). In the event of such broker’s insolvency, the transactions into which the broker has entered as principal could default, and the Partnership’s assets could become part of the insolvent broker’s estate, to the detriment of the Partnership. The Partnership’s assets may be held in “street name,” in which case, a default by the broker could cause the Partnership’s rights to be limited to that of an unsecured creditor.

To the extent that the Partnership invests in swaps, derivative or synthetic instruments, or other over-the-counter transactions, including forward contracts, or, in certain circumstances, non-U.S. securities, the Partnership may also take a credit risk with respect to the parties with whom it trades and may bear the risk of settlement default. These risks may differ materially from those entailed in exchange-traded transactions, which generally are backed by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered into directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default.

### **Discretion and Changes in Investment Strategy.**

The Investment Manager has considerable discretion in choosing the securities that may be acquired, and, subject to the restrictions expressly set forth herein, it has the right to modify the investment strategy, selection criteria or hedging techniques used by the Partnership without the consent of the Limited Partners. *Business Continuity and Disaster Recovery.* The business operations of the General Partner, the Investment Manager, their affiliates, the Partnership and their portfolio companies may be vulnerable to disruption in the case of catastrophic events such as fires, natural disaster (e.g., tornadoes, floods, hurricanes and earthquakes), terrorist attacks or other circumstances resulting in property damage, network interruption and/or prolonged power outages. Although the General Partner, the Investment Manager and/or their affiliates have implemented, or expect to implement, measures to manage risks relating to these types of events, there can be no assurances that all contingencies can be planned for. These risks of loss can be substantial and could have a material adverse effect on the Partnership and the Limited Partners’ investments therein.

### **Cyber Security Breaches and Identity Theft.**

The information and technology systems of the General Partner, the Investment Manager, their affiliates, the Partnership and their service providers and their portfolio companies may be vulnerable to damage or interruption from computer



viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons, other security breaches and/or usage errors by their respective professionals. The techniques used to obtain unauthorized access to data, disable or degrade service or sabotage systems change frequently and may be difficult to detect for long periods of time. Hardware or software acquired from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security.

Although the General Partner, the Investment Manager and/or their affiliates have implemented, or expect to implement, 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 General Partner, the Investment Manager, their affiliates, the Partnership, their service providers and/or their portfolio companies may have to make a significant investment to fix or replace them. The failure of these systems for any reason could cause significant interruptions in such parties' operations and/or 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 reputation of the General Partner, the Investment Manager, their affiliates, the Partnership and/or their portfolio companies, subject any such entity and their respective affiliates to legal claims and/or otherwise affect their business and financial performance. Specifically, cyberattacks and the failure of such systems may interfere with the processing of Limited Partner subscriptions or withdrawals, impact the Partnership's ability to value its assets, cause the release of confidential information and/or subject the Partnership to regulatory fines, penalties or financial losses, reimbursement or other compensation costs, and/or additional compliance costs. The Partnership also may incur substantial costs for cyber-security risk management to prevent any cyber incidents in the future. The Partnership and the Limited Partners could be negatively impacted as a result.

#### **Lack of Transferability of the Interests.**

The Partnership is intended for long-term investors who can accept the risks associated with investing primarily in securities that involve a high degree of financial risk. There is no public market for the Interests, and no such market is expected to develop in the future. Partners generally may not sell, transfer, exchange, assign, pledge, hypothecate or otherwise dispose of their Interests (or any portion thereof) without the prior written consent of the General Partner, which, in the sole and absolute discretion of the General Partner, may be withheld for any reason or no reason. Prospective investors are required to represent that they will be acquiring their Interests for investment purposes only and not with a view to resale or distribution. The Interests have not been registered under the Securities Act or any state securities laws. Therefore, they are subject to restrictions on transfer under the Securities Act and under certain states' securities laws. Accordingly, the General Partner may require an opinion of counsel satisfactory to the General Partner that, among other things, a proposed transfer of Interests is exempt from registration prior to consenting to any such transfer. It is not anticipated that a market for the Interests will ever develop.

#### **Lack of Liquidity; Limitations on Withdrawals.**

Voluntary withdrawals by the Limited Partners are limited and may be made only at specified times described elsewhere herein. The General Partner may find it necessary to establish one or more reserves for contingent liabilities, such as in connection with pending litigation, by withholding a certain portion of the amount payable in connection with the withdrawal until resolution of such contingencies. In addition, the General Partner may elect to make a distribution in-kind by distributing securities (including illiquid securities) to a withdrawing Limited Partner. There can be no assurances that a Limited Partner will be able to sell the securities received for the amount at which the securities were valued for purposes of the withdrawal. The risk of a decline in the value of such securities in the period from the relevant Withdrawal Date to the date upon which such securities are distributed to the withdrawing Limited Partner, and the risk of any loss or delay in liquidating such securities, will be borne by the withdrawing Limited Partner. The General Partner also may require that any Limited Partner withdraw all or a portion of its Capital Account. Distributions, other than permitted withdrawals, are solely at the discretion of the General Partner. It is the intention of the General Partner to accumulate capital in the Partnership and not to make any discretionary distributions (including dividends) to Limited Partners other than with respect to withdrawals. The General Partner shall have the right to make withdrawals from time to time, including, without limitation, withdrawals to pay taxes on gains or income generated by Partnership results.

### **Effects of Substantial Withdrawals.**

Substantial withdrawals by the Limited Partners and/or investors in the Partnership within a limited period of time could compel the Partnership to liquidate its securities positions more rapidly than otherwise would be desirable, which could affect adversely the amount distributable to the withdrawing Limited Partners and the value of the remaining Interests. In addition, regardless of the period of time within which withdrawals occur, the resulting reduction in the Partnership's equity base could make it more difficult for the Partnership to generate trading profits or recoup losses, and could even cause the Partnership to liquidate positions prematurely.

### **Market Disruptions.**

The Partnership may incur major losses in the event of market disruptions and other extraordinary events in which historical pricing relationships (on which the Investment Manager bases a number of its trading positions) become materially distorted. The risk of loss from pricing distortions 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 Partnership from its banks, dealers and other counterparties is typically reduced during market disruptions. Market disruptions caused by unexpected political, military and terrorist events may from time to time cause dramatic losses for the Partnership and such events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk. In addition, market disruptions may have a direct or indirect negative effect on a wide range of borrowers and may increase the likelihood that such borrowers will be unable to make principal and interest payments on, or refinance, outstanding debt when due. Moreover, the risk that such disruptions will affect a borrower's ability to pay its debts and obligations when due is enhanced if such entity in turn provides credit to third parties or otherwise participates in the credit markets. In the event of such defaults, the Partnership could lose both invested capital in, and anticipated profits from, any affected investments.

### **Suspension of Withdrawals.**

The General Partner may suspend withdrawal rights, in whole or in part, in the circumstances described herein and in the Partnership Agreement. In addition, the General Partner may suspend the payment of withdrawal proceeds to any Limited Partner if the General Partner deems it necessary, desirable or appropriate to do so, including to comply with laws and regulations (including anti-money laundering laws, sanctions and regulations) applicable to the Partnership, the General Partner, the Investment Manager, or any of the Partnership's service providers or agents.

### **Incentive Allocation.**

The General Partner may be entitled to receive an Incentive Allocation. The amount allocated to the General Partner is variable and cannot be determined in advance. Depending upon the Partnership's rate of return, the amount allocated to the General Partner may be substantial compared to a fee calculated as a percentage of the assets under management, which might be paid to a money manager for managing a comparable amount of money. This may provide an incentive to the General Partner to approve more speculative trading strategies or to act to crystallize long term or short-term capital gain treatment or to crystallize losses in an effort to maximize the Partnership's rate of return and the General Partner's Incentive Allocation. In addition, the Partnership's capital gains eligible investments are required to be held for more than three (3) years prior to their disposition in order for long-term capital gain tax rates to apply to the Incentive Allocation with respect to any such disposition. This requirement may create an incentive for the General Partner to delay the disposition of certain types of investments in an effort to minimize the amount of tax imposed on the Incentive Allocation.

### **Business and Regulatory Risks of Alternative Investment Funds.**

The financial services industry generally, and the activities of alternative investment funds and their managers in particular, have been subject to intense and increasing regulatory scrutiny. Such scrutiny may increase the Partnership's exposure to potential liabilities and to legal, compliance and other related costs. Increased regulatory oversight may also impose

additional administrative burdens on the General Partner and/or the Investment Manager, including, without limitation, responding to examinations, investigations, and document requests, implementing new policies and procedures and complying with recordkeeping and reporting obligations. Such burdens may divert such parties' time, attention and resources from portfolio management activities. The regulatory environment for alternative investment funds is evolving, and changes in the regulation of private funds and their investing activities may adversely affect the ability of the Partnership to pursue its investment program, the value of the investments held by the Partnership and the Partnership's ability to obtain leverage. There has been an increase in governmental, as well as self-regulatory, scrutiny of the alternative investment industry in general. It is impossible to predict whether changes in regulations may occur, but any regulations that restrict the Partnership's activities could have a material adverse effect on the Partnership's investments. In addition, such regulatory scrutiny may increase the Partnership's exposure to potential liabilities and to legal, compliance and other related costs.

### **Temporary Investments.**

For temporary defensive purposes, the Partnership may vary from its investment policies during periods ("Temporary Defensive Periods") in which drastic conditions in global debt markets or other economic or political conditions warrant a defensive posture. During a Temporary Defensive Period, the Partnership may invest, without limit (and, for the avoidance of doubt, without regard to any investment limitation relating to such investments that may be set forth in this Memorandum), in short-term, liquid debt securities determined by the Investment Manager to be of high quality, which may include U.S. government securities, bank deposits, money market instruments and short-term (for this purpose, securities with a remaining maturity of one year or less) debt securities, including notes and bonds. The Partnership may also at any time temporarily invest funds awaiting reinvestment or held as reserves for distributions to Shareholders in the high quality and money market instruments referred to above.

### **Granite Springs Total Return Master Fund, LP**

Granite Springs Total Return Master Fund, LP is long-only credit fund. The investment team utilizes a variety of strategies in predominantly investment grade credit markets (targeted portfolio-weighted average rating of Baa2/BBB, below B2/B not permitted) to exploit credit inefficiencies arising from dynamic market conditions and valuation anomalies. The strategy seeks to hedge interest rate exposure while actively managing credit and sector exposures (10% limit on a single issuer, 25% maximum by industry). Eligible investments in the fund include corporate credits, preferred securities, emerging markets and sovereign debt.

Risk Factors for subscribers to Granite Springs Total Return Master Fund, LP include but are not limited to:

### **General Investment Risks.**

All investments involve risks, including the risk that the entire amount invested may be lost. No guarantee or representation is made that the Fund's investment objective will be achieved.

### **General Economic Conditions and Events.**

Uncertainty in the global financial system could lead to an overall weakening of the U.S. and global economies, which could adversely affect the financial resources of the issuers in which the Fund invests. The deterioration of the global credit markets (including the U.S. credit markets) during the economic downturn, coupled with uncertainty in the global financial system generally, has reduced investor demand and liquidity for investment grade, high yield and senior bank debt and has



caused some investment banks and other lenders to be unwilling (or significantly less willing) to finance new investments or to offer committed financing for investments on terms less favorable than terms offered in the past, making it significantly more difficult to obtain favorable financing. This decrease in the availability of financing (or an increase in the interest cost) for leveraged transactions could impair, potentially materially, the Fund's ability to consummate transactions or could cause the Fund to enter into certain transactions on less attractive terms. As such, there can be no guarantee that debt facilities will be available at commercially attractive rates throughout the term of the Fund or when due for refinancing. Investments made by the Fund are expected to be sensitive to the performance of the overall economy (both domestic and global). There can be no assurances that conditions in the global financial markets will not worsen once again. A negative impact on economic fundamentals and consumer and business confidence would likely increase market volatility and reduce liquidity, both of which could have a material adverse effect on the performance of the Fund and these or similar events may affect the ability of the Fund to execute its investment strategies.

### **Market Disruptions.**

The Fund may incur major losses in the event of market disruptions and other extraordinary events in which historical pricing relationships (on which the Investment Manager bases a number of its trading positions) become materially distorted. The risk of loss from pricing distortions 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 Fund from its banks, dealers and other counterparties is typically reduced during market disruptions. Market disruptions caused by unexpected political, military and terrorist events may from time to time cause dramatic losses for the Fund and such events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk.

In addition, market disruptions may have a direct or indirect negative effect on a wide range of borrowers and may increase the likelihood that such borrowers will be unable to make principal and interest payments on, or refinance, outstanding debt when due. Moreover, the risk that such disruptions will affect a borrower's ability to pay its debts and obligations when due is enhanced if such entity in turn provides credit to third parties or otherwise participates in the credit markets. In the event of such defaults, the Fund could lose both invested capital in, and anticipated profits from, any affected investments.

### **Highly Volatile Markets.**

The prices of financial instruments in which the Fund may invest can be highly volatile and influenced by numerous factors including interest rates, currency rates, default rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs, governmental policies and political and economic events (both domestic and global). Moreover, political or economic crises, or other events may occur that can be highly disruptive to the markets in which the Fund may invest. In addition, governments from time to time intervene (directly and by regulation), which intervention may adversely affect the performance of the Fund and its investment activities. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. The Fund is also subject to the risk of a temporary or permanent failure of the exchanges and other markets on which its investments may trade. Sustained market turmoil and periods of heightened market volatility make it more difficult to produce positive trading results, and there can be no assurance that the Fund's strategies will be successful in such markets.

### **Risks related to the Seed Investor.**

The Seed Investor has made a substantial investment in the Fund, and will have certain preferred rights relating to its Units. If the Seed Investor redeems its interest in the Fund, such redemption may cause a temporary imbalance of the Fund's portfolio, which may adversely affect the Fund and the Limited Partners.

### **Operational and Execution Risks.**

The Fund will depend on the Investment Manager, the Prime Broker and the Clearing Broker to develop the appropriate systems and procedures to control operational risk in its investment activities. Systemic or other failures in the financial, accounting and other data processing systems employed by the Investment Manager, the Prime Broker, the Clearing Broker or the Administrator, as well as in the corresponding systems employed by counterparties, exchanges, similar clearance and settlement facilities and other third parties, could result in operational difficulties, such as mistakes in the confirmation or settlement of transactions, some slippage, errors and miscommunications with brokers and counterparties, or transactions not being properly booked, evaluated or accounted for, which in turn may cause the Fund to suffer financial loss, the disruption of its investment program, liability to clients or third parties, regulatory intervention or reputational damage.

In such circumstances, the General Partner and the Investment Manager will evaluate the merits of potential claims for damages against brokers and counterparties who are at fault and, to the extent practicable, will seek to recover losses from those parties. In addition, the Investment Manager's execution and operational staff may be solely or partly responsible for errors that result in losses to the Fund. However, the Investment Management Agreement contains limitations on liability and the Investment Manager benefits from certain indemnities under the Investment Management Agreement. Subject to applicable law, the General Partner may choose to forego pursuing claims against the Investment Manager, brokers and/or counterparties on behalf of the Fund for any reason, including, but not limited to, the cost of pursuing claims relative to the likely amount of any recovery. As set out herein, potential investors should only subscribe for Units in the Fund on the understanding that the Fund may waive potential claims for damages arising from the operation of the Fund, including damages resulting from the Investment Manager's own actions.

### **Limited Liquidity and Redemption Rights.**

An investment in the Fund is suitable only for certain sophisticated investors who have no need for immediate liquidity in their investment. An investment in the Units provides limited liquidity because Units are not freely transferable, redeemed on a monthly basis upon prior written notice to the Administrator and the Investment Manager no later than the first Business Day of such month as described herein, or at such other times or on such shorter notice as may be permitted by the General Partner, in its sole discretion. Moreover, the General Partner may limit or suspend the right of redemption, in whole or in part, under the circumstances. Further, the payment of redemption proceeds to a Limited Partner may be suspended if it is determined that such payment would cause a breach or violation of any anti-money laundering or other laws or regulations applicable to the Fund, the Investment Manager or any of the Fund's service providers in any relevant jurisdiction.

There is currently no market for the Units and it is not contemplated that one will develop. The Units offered hereby are not required to be, have not been, and are not expected to be, registered under the Securities Act, or any other securities laws and, therefore, cannot be resold unless an exemption from registration is available or they are subsequently registered under the Securities Act and other applicable securities laws.

### **No Audit Holdback.**

The Fund will not operate an audit holdback mechanism. Given that the Fund's audit is done on an annual basis, Units will be redeemed at a price per Unit based on the Net Asset Value of the applicable Units on the applicable Redemption Date based on unaudited estimated data. Should the Fund's annual audit determine that an adjustment to any of the previous monthly valuations are necessary, this may result in an overpayment or underpayment of such redemption amounts. Accordingly, since the Fund will not provide for any post-audit claw-back of such overpayments or adjustment for underpayments, this could have a corresponding positive or negative impact on the Fund.

### **Effect of Significant Redemptions.**

A significant redemption of Units in the Fund due to Limited Partner redemption requests may cause a temporary imbalance in the Fund's portfolio, which may adversely affect the remaining Limited Partners. Substantial redemption requests could be triggered by a number of events, including, for example, unsatisfactory performance, a significant change in personnel or management of the Investment Manager, or legal, economic or regulatory developments that investors perceive will have an impact on the Fund or the Investment Manager. In such a situation, the Fund may not be able to readily dispose of certain financial instruments and, in some cases, may be contractually prohibited from disposing of such financial instruments for a period of time. Actions taken to meet substantial redemption requests could result in prices of financial instruments held by the Fund decreasing and in the Fund's expenses increasing (*e.g.*, transaction costs and the costs of terminating agreements). The overall value of the Fund also may decrease because the liquidation value of certain assets may be materially less than their mark-to-market value.

### **Contingency Reserves.**

The Fund may, upon prior written notice to its Limited Partners, retain a part of the redemption proceeds otherwise payable to a Limited Partner, as a reserve to fund specified liabilities or a reserve for contingencies, which at the time of the reserve will be specified to the Limited Partners (whether or not in accordance with U.S. GAAP). If reserves are established that are not in accordance with U.S. GAAP, they will be treated in the same manner as reserves that are in accordance with U.S. GAAP, *i.e.*, in the period during which they are taken they will be treated as an expense of the Fund (and will reduce the net asset value of the Fund) and if and to the extent that they are subsequently reversed they will be taken into income in the period of such reversal (and will to that extent increase the net asset value of the Fund). The establishment of such reserves will not insulate any portion of the Fund assets from being at risk.

### **Board Participation/Conflicts of Interests.**

While unlikely, it is possible that a director, manager or employee of the Investment Manager or its affiliates may serve as a director of an issuer. In addition to any duties such person owes to the Fund, as a director of an issuer such persons will also owe duties to the shareholders of the issuers and persons other than the Fund. In general, such position would be assumed in connection with the Fund's investment strategy and may enhance the ability of the Investment Manager to manage the Fund's investments. However, such positions may have the effect of impairing the ability of the Fund to sell the related securities when, and upon the terms, the Investment Manager may otherwise desire. In addition, such positions may place such directors, partners and members of the Investment Manager or its affiliates in a position where they must make a decision that is either not in the best interests of the Fund or not in the best interests of the shareholders of the issuer. Should such person make a decision that is not in the best interests of the shareholders of an issuer, such decision may subject the Investment Manager and the Fund to claims they would not otherwise be subject to as an investor, including claims of breach of the duty of loyalty, securities claims and other director-related claims. Subject to any legal restrictions on such indemnification, the Fund, in general, will indemnify the Investment Manager and other indemnified persons from such claims.

### **Pledge of, Foreclosure on, and Liquidation of Fund Assets.**

The Units represent equity interests in the Fund only and will not be insured or guaranteed by any person or entity. The providers of borrowing arrangements and other creditors of the Fund will have a first claim on all assets included in the collateral. In the event of the dissolution of the Fund or otherwise, if the proceeds from the sale of the assets (after payment in full of the obligations under the borrowing arrangements) and other liabilities are insufficient to make distributions to Limited Partners as provided in the Partnership Agreement, no other assets will be available for the payment of any deficiency. None of the General Partner, the Investment Manager or distributions.

In addition, on the occurrence of an event of default or similar event under a borrowing arrangement, the lender(s) and/or trustee(s) thereunder are expected to have the right to foreclose on the Fund's investments securing the loans made, or notes issued, under such agreement and to liquidate such Fund investments, with the proceeds from such liquidation being credited toward the amount owed to such lender(s) and/or trustee(s). There can be no assurance that any such liquidation

will occur at any advantageous time or at favorable prices. Such liquidation may also result in a lower sale price than if such assets were sold in a more orderly manner.

### **Fixed-Income Securities.**

The Fund may invest in fixed-income securities. Fixed-income securities pay fixed, floating or variable rates of interest. The value of fixed-income securities in which the Fund invests will change in response to fluctuations in interest rates. In addition, the value of certain fixed income securities may fluctuate in response to perceptions of creditworthiness, political stability or soundness of economic policies. Fixed-income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (*i.e.*, credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (*i.e.*, market risk). The issuers of such securities (including sovereign issuers) may face significant uncertainties and exposure to economic downturns and other adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal thereon and increase the incidence of default for such securities. In addition, an economic recession could severely disrupt the market for certain of these securities and may have an adverse impact on the value of such securities. At times, certain sectors of the fixed-income markets have in the past experienced significant declines in liquidity. While such events may sometimes be attributable to changes in interest rates or other factors, the cause is not always apparent. During such periods of market illiquidity, the Fund may not be able to sell assets in its portfolio or may only be able to do so at unfavorable prices. Such "liquidity risk" could adversely impact the value of the Fund's portfolio and may be difficult or impossible to hedge against.

### **Investment in Lower-Rated Fixed-Income Securities.**

Securities of issuers that are rated below investment-grade by nationally recognized statistical rating organizations ("NRSROs") or deemed by the Investment Manager to be of equivalent quality ("*lower-rated securities*") are commonly referred to as "junk bonds" and are considered to be speculative and involve major risk exposure to adverse conditions. The Investment Manager may purchase below investment grade securities (rated B2/B or above), and is not required to dispose of portfolio holdings that are downgraded by an NRSRO to a rating below investment-grade (unless the rating falls below a rating of B2/B). Investing and trading in lower-rated securities can be highly speculative and involve greater risks of loss because such securities become more vulnerable and susceptible, during times of deteriorating economic conditions or rising interest rates, to non-payment of interest, non-payment of principal and an increased possibility of default. Accordingly, the market values of lower-rated securities may be more volatile than the values of investment-grade instruments and, during periods of economic uncertainty and change, the market price of the Fund's investments in lower-rated securities may decrease significantly. Lower-rated securities also may be less liquid than investment-grade instruments because the market for them may be less broad or less active. The lack of a liquid secondary market may have an adverse effect on the market price and the Fund's ability to sell particular lower-rated securities.

In addition, analysis of the creditworthiness of issuers of lower-rated securities may be more complex than for issuers of investment-grade instruments. Accordingly, the Fund's success in achieving its investment objective may depend more heavily on the Investment Manager's analysis of issuers' creditworthiness than would be the case if the Fund invested exclusively in investment-grade instruments.

### **Emerging Market Securities.**

The Fund may invest in the securities of emerging markets. Investment in emerging market securities generally involves a greater degree of risk than an investment in securities of issuers based in developed countries. Among other things, investments in emerging market securities may be subject to the following risks: less publicly available information; more volatile markets; less liquidity or available credit; political or economic instability; less strict securities market regulation; less favorable tax or legal provisions; price controls and other restrictive governmental actions; severe inflation; unstable currency; war; and expropriation of personal property.

## **Sovereign Debt.**

The Fund may invest in financial instruments issued by a government, its agencies, instrumentalities or its central bank (*"Sovereign Debt"*). Sovereign Debt may include securities that the Investment Manager believes are likely to be included in restructurings of the external debt obligations of the issuer in question. The ability of an issuer to make payments on Sovereign Debt, the market value of such debt and the inclusion of Sovereign Debt in future restructurings may be affected by a number of other factors, including such issuer's (i) balance of trade and access to international financing, (ii) cost of servicing such obligations, which may be affected by changes in international interest rates, and (iii) level of international currency reserves, which may affect the amount of foreign exchange available for external debt payments. Significant ongoing uncertainties and exposure to adverse conditions may undermine the issuer's ability to make timely payment of interest and principal, and issuers may default on their Sovereign Debt.

## **Preferred Securities.**

The Fund may invest from time to time, on an opportunistic basis, in nonconvertible preferred securities, which may have fixed or variable dividend or income rates. Preferred securities generally have a preference as to dividends and liquidation over an issuer's common stock, but such securities rank junior to debt securities in an issuer's capital structure. Unlike interest payments on debt securities, dividends generated from preferred securities are payable only if declared by an issuer's board of directors. Preferred securities may be subject to optional or mandatory redemption provisions. The ability of preferred securities to generate income is dependent on the earnings and continuing declaration of dividends by the issuers of preferred securities. An issuer's preferred securities will usually have a lower credit rating than the firm's senior unsecured bonds and are often compared to sub-investment grade or high-yield bonds, given the higher income opportunities. High-yield bonds by definition carry speculative-grade ratings and credit risk. Preferred securities usually have long maturities or even no maturity date at all, meaning that they can remain outstanding in perpetuity. Although preferred securities are generally "callable" at the option of the issuer and thus can be retired prior to maturity, they should be viewed as a long-term investment with greater sensitivity to interest-rate movements. If rates rise, the price of a preferred security may fall more dramatically than prices for short-term bonds. Certain preferred securities may be less liquid than other securities issued by the same firm.

## **Repurchase and Reverse Repurchase Agreements.**

The Fund may enter into repurchase and reverse repurchase agreements. When the Fund enters into a repurchase agreement, it will "sell" securities to a broker-dealer or financial institution, and agree to repurchase such securities on a mutually agreed date for the price paid by the broker-dealer or financial institution, plus interest at a negotiated rate. In a reverse repurchase transaction, the Fund will "buy" securities issued from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such securities at the price paid by the Fund, plus interest at a negotiated rate.

The use of repurchase and reverse repurchase agreements by the Fund involves certain risks. For example, if the seller of securities to the Fund under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities, the Fund will seek to dispose of such securities, which action could involve costs or delays, and may suffer a loss to the extent that it is forced to liquidate its position in the market and proceeds from the sale of the underlying securities are less than the repurchase price agreed to by the defaulting seller. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, the Fund's ability to dispose of the underlying securities may be restricted, and it is even possible that the Fund will be unable to substantiate its interest in the underlying securities. Similar elements of risk arise under repurchase agreements (as to which the Fund is a seller) in the event of a default by, or a bankruptcy or insolvency with respect to, the buyer.

## **Ratings Generally.**



The Fund may invest in instruments that are unrated or in instruments that are in fact rated. In general, the ratings of nationally recognized rating organizations represent the opinions of these agencies as to the quality of securities that they rate. These ratings may be used by the Investment Manager as initial criteria for the selection of portfolio securities. Such ratings, however, are relative and subjective; they are not absolute standards of quality and do not evaluate the market value risk of the securities. It is also possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events.

### **High Yield Securities.**

The Fund may invest in high yield securities. Such securities are generally not exchange-traded and, as a result, these instruments trade in the over-the-counter marketplace, which is less transparent than the exchange-traded marketplace. In addition, the Fund may invest in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. High yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities that react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities are often highly leveraged and may not have available to them more traditional methods of financing. It is possible that a major economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default of such securities.

### **Participation Interests.**

The Fund may purchase participation interests in debt instruments which do not entitle the holder thereof to direct rights against the obligor. Participations held by the Fund in a seller's portion of a debt instrument typically result in a contractual relationship only with such seller, not with the obligor. The Fund has the right to receive payments of principal, interest and any fees to which it is entitled only from the seller and only upon receipt by such seller of such payments from the obligor. In connection with purchasing participations, the Fund generally will have no right to enforce compliance by the obligor with the terms of the related loan agreement, nor any rights of set-off against the obligor and the Fund may not directly benefit from the collateral supporting the debt instrument in which it has purchased the participation. As a result, the Fund will assume the credit risk of both the obligor and the seller selling the participation. In the event of the insolvency of such seller, the Fund may be treated as a general creditor of such seller, and may not benefit from any set-off between such seller and the obligor.

Recent, well-publicized weaknesses in certain financial institutions may be indicative of increased counter-party risk with respect to, among other things, participation interests. Additionally, the transparency of financial statements used by such financial institutions, in particular, with respect to the value of complex financial assets, has been called into question. When the Fund holds a participation in a debt instrument it may not have the right to vote to waive enforcement of any restrictive covenant breached by an obligor or, if the Fund does not vote as requested by the seller, it may be subject to repurchase of the participation at par. Sellers voting in connection with a potential waiver of a restrictive covenant may have interests different from those of the Fund, and such selling institutions may not consider the interests of the Fund in connection with their votes.

### **Investment and Trading Risks.**

An investment in the Fund involves risks, including the risk that the entire amount invested may be lost. The Fund may invest in and actively trade securities and other financial instruments using investment techniques with risk characteristics, including risks of the fixed income markets and the potential illiquidity of securities and other financial instruments. There

can be no assurance that the Fund's investment program will be successful or that its investment objective will be achieved. In reorganization or liquidation situations, the Investment Manager may not accurately value the assets of the subject issuer or the degree of legal and regulatory risk associated with transactions in the securities of issuers in such situations.

### **Liquidity and Valuation of Investments.**

The Fund may invest in securities that are subject to legal or other restrictions on transfer or for which no liquid market exists. The Fund may not be able to sell such securities when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale. Because the markets for such securities are still evolving, liquidity in these securities is limited and liquidity with respect to lower rated and unrated subordinated classes may be even more limited. As a result, calculating the fair market value of the Fund's holdings may be difficult and there can be no assurance that the Investment Manager's valuation will accurately reflect the value that will be realized by the Fund upon the eventual disposition of such investment. Disposition of such illiquid investments may also result in distributions in-kind to the Limited Partners. Such investments could also impair the Fund's ability to distribute redeeming proceeds to a redeeming Limited Partner in a timely manner. The Investment Manager may not necessarily aggregate illiquid investments in classes, and may use valuation methodologies for such assets involving subjective determinations. In addition, in the discretion of the Investment Manager, payment to the Limited Partner of that portion of its requested withdrawal attributable to the Fund's illiquid investments may be delayed.

### **Interest Rates.**

Although the Fund intends to hedge against general movements in interest rates, there is no guarantee that the interest rate hedging strategies will be successful. Therefore, the value of the Fund's investments may change as interest rates fluctuate, and the Fund may suffer losses if interest rates move in opposition to the Investment Manager's expectations. In addition, under certain market conditions, lower-rated securities may be more vulnerable to broad changes in yield and market value than investment-grade securities.

In addition to traditional fixed-rate securities, the Fund may invest in securities with floating or variable interest rates or dividend payments. During periods of increasing interest rates, changes in the coupon rates may lag the change in market rates or may have limits on the maximum increase in coupon rates. Alternatively, during periods of declining interest rates, the coupon rates on such securities readjust downward, resulting in a lower yield.

### **Prime Broker and Clearing Broker Risks.**

The Fund utilize the services of the Prime Broker and Clearing Broker, which assist the Fund in the settlement of the Fund's trades executed through executing brokers affiliated with the Prime Broker or the Clearing Broker and execute trades for the Fund. In addition, the Fund's assets may be held in the Prime Broker's name. As evidenced by the bankruptcy of Lehman Brothers Holdings Inc., the failure of a prime broker can have a devastating impact on investment vehicles (like the Fund). Subject to the SEC's rule that prime brokers maintain physical possession and control of fully paid securities held in a customer's account and to establish certain reserves for the benefit of customers, the Prime Broker would generally have the ability to commingle, loan, pledge and re-hypothecate the securities held for the Fund, as is typical market practice. As a result, the Prime Broker or Clearing Broker may have insufficient assets to meet all of its obligations to customers in the event of an insolvency of the Prime Broker or the Clearing Broker, respectively. In such an event, the Fund would typically not have a right to recover its securities held by the Prime Broker or the Clearing Broker, but rather would have only an unsecured claim against the Prime Broker or the Clearing Broker and would participate *pro rata* with other customers of the Prime Broker or the Clearing Broker, as applicable, in the proceeds of the sale of customer securities, which could result in a material loss to the Fund. Also, even if the Prime Broker or the Clearing Broker does have sufficient assets in such an event to meet all customer claims, there could be a delay before the Fund receives assets to

satisfy its claims, and the assets recovered from the Prime Broker or the Clearing Broker could be of a value that is materially less than the value of the assets originally entrusted to it by the Fund. The Investment Manager may not be able to identify potential solvency concerns with respect to the Prime Broker or the Clearing Broker or to transfer assets between the Prime Broker or from the Prime Broker or any Clearing Broker to another prime broker or clearing broker in a timely manner.

### **Portfolio Turnover.**

Certain strategies used by the Fund may require frequent trading and a high portfolio turnover. Replacement of all the securities in the portfolio in one year would constitute complete portfolio turnover. The Fund will generally not be restricted in effecting transactions by any limitation with regard to its portfolio turnover rates. This may result in higher investment costs and charges (*e.g.*, brokerage commissions and fees) to the Fund, regardless of the profitability of the Fund's investment and trading activities.

### **"Spread Widening" Risk.**

For reasons not necessarily attributable to any of the risks set forth herein (*e.g.*, supply/demand imbalances, market illiquidity or other market forces), the prices of the securities in which the Fund invests may decline substantially, in particular, assets purchased at what may appear to be "undervalued" levels may be trading at even more "undervalued" levels at a time of valuation or at the time of sale. It may not be possible to predict, or to hedge against, such "spread widening" risks.

### **Uncertain Exit Strategies.**

Due to the potential illiquid nature of certain investments which the Fund may make, the Investment Manager is unable to predict with confidence what, if any, exit strategies will ultimately be available for any given position. Exit strategies which appear to be viable when an investment is initiated may be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors. The larger the transaction in which the Fund is participating, the more uncertain the Fund's exit strategy tends to become.

### **Lack of Diversification.**

The Fund's portfolio may be concentrated in particular issuers. The concentration of the Fund's portfolio in few issuers could subject the Fund to a greater degree of risk and could expose the Fund to losses that are disproportionate to market movements in general. The Fund may face similar risks with respect to concentration of positions in a particular industry or geographic region. While the Investment Manager will regularly monitor the concentration of the Fund's portfolio, concentration in any one industry, region or country may arise from time to time. For example, at any given time, certain geographic areas or industry sectors may provide more attractive investment opportunities than others and, as a result, the Fund's investment portfolio may become concentrated in those countries or regions or in specific industry sectors. The risk of loss on the Fund's investments will increase to the extent that the Fund's portfolio becomes so concentrated. To the extent there is a downturn affecting a country, region or industry sector in which the Fund's portfolio is concentrated, this could increase the risk of defaults, reduce the amount of payments the Fund receives on its investments and, consequently, could have an adverse impact on the Fund's financial condition and results.

Notwithstanding the Investment Manager's attempts to control risks and diversify the Fund's portfolio, risks associated with different assets may be correlated in unexpected ways, with the result that the Fund faces concentrated exposure to certain risks. Such concentration of risk may increase any losses suffered by the Fund.

### **Non-U.S. Investments.**

The Fund may invest in securities of non-U.S. companies and other instruments traded outside of the U.S. Such



investments require consideration of certain risks not typically associated with investing in securities of U.S. companies or U.S. markets, such as greater risks of expropriation and nationalization, restrictions on repatriation of investment income and capital, confiscatory taxation, general social, political and economic instability and adverse diplomatic developments; the possibility of imposition of exchange control regulation by the U.S. or foreign governments; the possibility of imposition of withholding or other taxes on dividends, interest, capital gain or other income; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; and certain government policies that may restrict the Fund's investment opportunities. In addition, accounting and financial reporting standards that prevail in such countries generally are not equivalent to U.S. standards and, consequently, less information may be available to investors in companies located in such countries than is available to investors in companies located in the U.S. Generally, there is also less regulation of the securities markets in such countries than in the U.S. The values and relative yields of investments in the securities markets of different countries, and their associated risks, are expected to change independently of each other.

### **Bankruptcy; Investments in Distressed Securities and Restructurings.**

The Fund's investments may involve obligors that are experiencing, or are expected to experience, severe financial difficulties, which may never be overcome and may lead to uncertain outcomes. The bankruptcy courts have broad discretion to control the terms of a reorganization, and political factors may be of significant importance in high profile bankruptcies or bankruptcies in particular jurisdictions. There are a number of significant risks inherent in the bankruptcy process. While creditors are generally given an opportunity to object to significant actions, there can be no assurance that a bankruptcy court in the exercise of its broad powers would not approve actions that would be contrary to the interests of the Fund. For example, in order to protect net operating losses of an obligor in bankruptcy, a bankruptcy court might take any number of actions, including prohibiting or limiting the transfer of claims held by certain classes of creditors. Such a prohibition could have a material adverse effect on the value of certain investments made by the Fund. For example, the Fund might be prohibited from liquidating investments which are declining in value. In addition, investments in issuers that are experiencing, or are expected to experience, severe financial difficulties could, in certain circumstances, subject the Fund to certain additional potential liabilities that may exceed the value of the Fund's original investment therein. For example, under certain circumstances, a lender who has inappropriately exercised control of the management and policies of a debtor may have its claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. In addition, under certain circumstances, payments to the Fund and distributions by the Fund to the Limited Partners may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, a preferential payment or similar transaction under applicable bankruptcy and insolvency laws. In addition, investments in restructurings may be adversely affected by statutes related to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims or re-characterize investments made in the form of debt as equity contributions.

The possibility of litigation between the participants in a reorganization is another consideration that makes any evaluation of the outcome of an investment uncertain. Such uncertainties may also be increased by legal and other factors that limit the ability of the Investment Manager to be able to obtain reliable and timely information concerning material developments affecting an obligor, or which lengthen a reorganization or liquidation proceeding.

### **Lender Liability and Equitable Subordination.**

In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories (collectively termed "lender liability"). Generally, lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to a borrower or has assumed a degree of control over the borrower resulting in a creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. Because of the nature of certain of the Fund's investments, the Fund could be subject to allegations of lender liability.

In addition, under common law principles that in some cases form the basis for lender liability claims, if a lender or

bondholder (i) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors, or (iv) uses its influence as a stockholder to dominate or control a borrower to the detriment of other creditors of such borrower, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors, a remedy called “equitable subordination.” The Fund does not intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine. However, because of the nature of certain of the Fund’s investments, the Fund may be subject to claims from creditors of an obligor that debt obligations of which are held by the Fund should be equitably subordinated. The preceding discussion regarding lender liability is based upon principles of U.S. federal and state laws. With respect to the Fund’s investments outside the United States, the laws of certain non-U.S. jurisdictions may also impose liability upon lenders or bondholders under factual circumstances similar to those described above, with consequences that may or may not be analogous to those described above under U.S. federal and state laws.

### **Prepayment Risk.**

The frequency at which prepayments (including voluntary prepayments by obligors and accelerations due to defaults) occur on bonds will be affected by a variety of factors including the prevailing level of interest rates and spreads as well as economic, demographic, tax, social, legal and other factors. Generally, obligors tend to prepay their fixed-rate obligations when prevailing interest rates fall below the coupon rates on their obligations. Similarly, floating rate issuers and borrowers tend to prepay their obligations when spreads narrow. In general, “premium” securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments. Since many fixed-rate obligations will be premium instruments when interest rates and/or spreads are low, such debt instruments may be adversely affected by changes in prepayments in any interest rate environment. The adverse effects of prepayments may impact the Fund’s portfolio in two ways. First, particular investments may experience outright losses, as in the case of an interest-only instrument in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that the Investment Manager may have constructed for these investments, resulting in a loss to the Fund’s overall portfolio. In particular, prepayments (at par) may limit the potential upside of many instruments to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

### **Contingent Liabilities on Disposition of Investments.**

In connection with the disposition of an investment of the Fund, the Fund may be required to make representations and warranties about such investments. The Fund may become involved in disputes or litigation concerning such representations and warranties and may be required to make payments to third parties as a result of such disputes or litigation. Any such payments could adversely impact the Fund’s ability make distributions. In addition, if the Fund does not have cash available to conduct such litigation or make such payments, it may be forced to sell investments to obtain funds. Such sales may be effected on unsatisfactory terms. The Investment Manager may also establish reserves or escrow accounts for such contingent liabilities. In that regard, Limited Partners may be required to return amounts distributed to them to fund the Fund’s indemnity obligations or other Fund obligations arising out of any legal proceeding against the Fund, subject to certain limitations set forth in the Partnership Agreement.

### **Non-Controlling Investments.**

The Fund may hold non-controlling interests in certain issuers and, therefore, may have a limited ability to protect its position in such issuers; although, where practicable and appropriate, it is expected that shareholder rights or similar rights in non-corporate vehicles generally will be sought to protect the Fund’s interests.

### **Counterparty Risk.**

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

### **Custodial Risk.**

Because the Fund is not a registered investment company, any custodial arrangement is not subject to SEC regulations governing registered investment companies. For example, a registered investment company that places its securities in the custody of a member of a national securities exchange is required to have a written custodian agreement which provides that securities held in custody will be at all times individually segregated from the securities of any other person and marked to clearly identify such securities as the property of such investment company and which contains other provisions complying with SEC regulations. The Fund may not have a written custodian agreement with its custodial agent. Accordingly, in acting as custodial agent of certain of the Fund’s securities and other assets, the custodial agent is not required to comply with certain of the SEC regulations applicable to custodians of the securities of registered investment companies.

### **Difficulty of Locating Suitable Investments and Competition.**

There can be no assurance that there will be a sufficient number of suitable investment opportunities that the Investment Manager will be able to identify to enable the Fund to invest all of its assets in opportunities that satisfy the Fund’s investment objectives or that such investment opportunities will lead to completed investments by the Fund. The activity of identifying, completing and realizing an attractive investment opportunity is highly competitive and involves a high degree of uncertainty. In addition, the availability of investment opportunities generally will be subject to market conditions, as well as, in some cases, the prevailing regulatory or political climate.

The Fund’s potential for current income and capital appreciation for its investors will depend, in large part, on the Investment Manager’s ability to acquire investments for the Fund on advantageous terms. There is currently, and will likely continue to be, competition for investment opportunities by investment vehicles, strategic investors, hedge funds and others with investment objectives and strategies identical or similar to the Fund’s investment objectives and strategies. Participation in auction transactions (if any) will also increase the pressure on the Fund with respect to pricing of transactions.

A number of entities compete with the Fund to make investments of the type that the Fund intends to make. Additional funds with similar investment objectives may be formed in the future by other unrelated parties. As a result of these new entrants, competition for investment opportunities has intensified, and the Fund expects this trend to continue. Many of the Fund’s existing and potential competitors are substantially larger and have considerably greater financial, technical and marketing resources than those available to the Fund. Some competitors, such as commercial banks, may have a lower cost of funds and access to funding sources that are not available to the Fund. In addition, some of the Fund’s competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than the Fund. Therefore, identification of attractive investment opportunities is difficult and involves a high degree of uncertainty, and competition for such opportunities may become more intense.

### **Expedited Transactions.**

The Investment Manager's investment analyses and decisions will often be undertaken on an expedited basis in order for the Fund to take advantage of investment opportunities. In such cases, the information available to the Investment Manager at the time of an investment decision may be limited, and the Investment Manager may not have access to the detailed information necessary for a full evaluation of the investment opportunity. As a consequence, there is a substantial risk that the Investment Manager will not be able to adequately evaluate particular risks or that market movements or other adverse developments will cause the Fund to incur substantial losses on such transactions. In addition, the Investment Manager may rely upon independent consultants or advisors in connection with its evaluation of proposed investments. There can be no assurance that these consultants or advisors will accurately evaluate such investments.

### **Speculative Nature of Investments.**

The investment activities of the Fund are inherently speculative. Prices and market movements may be volatile, and various other factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of the Fund's activities. As a result, the Fund's performance over a particular period will not necessarily be indicative of the results that may be expected in future periods.

### **Ocean Partners, LLC**

Ocean Partners, LLC is an equity long-short fund pursuing an absolute return strategy. Risk Factors for subscribers to Ocean Partners, LLC include but are not limited to:

### **Limited Liquidity; In Kind Distributions.**

An investment in the Fund must be considered an illiquid investment and involves a high degree of risk. There is no public market for the Partnership interests, and it is not expected that a public market will develop. There are substantial restrictions on the ability of a Limited partner to withdraw capital or to transfer its Partnership interests. There can be no assurance that the Fund will have sufficient cash to satisfy redemption requests, or that it will be able to liquidate investments at the time of such redemption request at favorable prices. Under the foregoing circumstances, and under other circumstances deemed appropriate by the Managing Members, Limited Partners may receive in-kind distributions from the Fund's portfolio. Such investments so distributed may not be readily marketable or saleable and may have to be held by such Limited partner for an indefinite period of time. As a result, an investment in the Fund is suitable only for sophisticated investors who can afford to bear the risk of a complete loss of such investment. A purchase of Partnership interests should be considered only by persons financially able to maintain their investment and who can afford a loss of all or a substantial part of such investment. The Incentive Fee to the Investment Manager may create an incentive for the Investment Manager to cause the Fund to make investments that are riskier or more speculative than would be the case if the Incentive Fee was not made. The Incentive Fee (as well as the Management Fee) was set by the Investment Manager without negotiations with any third party. In addition, since the Incentive Fee is calculated on a basis that includes unrealized appreciation of the Fund's assets, it may be greater than if such allocation was based solely on realized gain.

### **Incentive Fee; Conflicts of Interest.**

The Incentive Fee to the Investment Manager may create an incentive for the Investment Manager to make investments that are riskier or more speculative than would be the case if the Incentive Fee was not in place. The Incentive Fee (as well as the Management Fee) was set by the Investment Manager without negotiations with any third party. In addition,

since the Incentive Fee is calculated on a basis that includes unrealized appreciation of the Fund's assets, it may be greater than if such allocation was based solely on realized gain. Furthermore, the Investment Manager has the power and authority to determine the fair market value of securities and other assets owned by the Fund for purposes of establishing the net asset value of the Fund, upon which both the Incentive Fee and Management Fee are based. The Investment Manager, Mr. O'Mealia and their affiliates will be subject to a variety of conflicts of interests in making investments on behalf of the Fund.

#### **No Assurance of Fund Profit, Cash Distributions or Appreciation.**

It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before realization of gains on successful investments. There may be no current return on the investments for an extended period of time. Distributions are declared in the sole discretion of the Managing Members of the Fund, which has no current intention to make any distributions to the Limited Partners. There is no assurance that the Fund will make distributions to the Limited Partners.

#### **High Risk Investments; Market Volatility.**

A potential investor should be aware that it may lose all or part of its investment in the Fund. While investments in companies in certain industries offer the opportunity for significant capital gains, such investments involve a high degree of business, financial, technological and regulatory risk which can result in substantial losses. Moreover, the Fund's investment portfolio may include investments particularly subject to increased risk because they are in companies at an early stage of development, which have been or may go into bankruptcy, acquired as leveraged buyouts subject to interest rate fluctuations, or engaged in highly competitive industries dominated by companies with substantially greater resources. The stock market has experienced volatility. As a result, the Fund's performance may experience substantial volatility and potential for loss. The Investment Manager believes that the Fund's investment program and research techniques moderate this risk through a careful selection of securities and other financial instruments. However, no guarantee or representation is made that the Fund's program will be successful. Furthermore, certain investment techniques which the Fund expects to utilize can, in certain circumstances, increase the adverse impact which the Fund is subject to. The Fund may invest in bonds or other fixed income securities, including, without limitation, commercial paper and "higher yielding" (and, therefore, higher risk) debt securities, when the Investment Manager believes that such securities offer opportunities for capital growth. Such securities may be below "investment grade" and face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower rated debt securities tend to reflect individual corporate developments to a greater extent than do higher rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher rated securities. Companies that issue such securities often are highly leveraged and may not have available to them more traditional methods of financing. It is likely that a major economic recession could severely disrupt the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

#### **Securities of Small Capitalization Companies.**

Some of the issuers of securities in which the Fund may invest may be more vulnerable than larger companies to adverse business or market development, may have limited markets or financial resources and may lack experienced management. In addition, many micro-cap, small and medium-size companies are not well-known to the investing public, do not have significant institutional ownership and are followed by relatively few securities analysts, if any, and thus there tends to be limited publicly available information concerning such companies. Additionally, some securities traded in the over-the-

counter market may have few market makers, wider bid/ask spread and low trading volumes which may result in high price volatility and limited liquidity. Investments in such companies will substantially increase the risk of an investment in the Fund.

### **Competitive Market for Investments; Unidentified Investments.**

The business of identifying and structuring certain transactions of the nature contemplated by the Fund is competitive (and may become more competitive in the future), and involves a high degree of uncertainty. There can be no assurance that the Fund will be able to locate and complete attractive investments, that it will be able to adhere to the investment selection criterion outlined herein or that, if adhered to and implemented, any such investments will produce superior risk-adjusted rates of return or otherwise achieve the Fund's objectives. Furthermore, there can be no assurance that the Fund will be able to invest the entire amount of the Limited Partners' investments or that suitable investment opportunities will otherwise be identified.

### **Effect of Material Redemptions.**

Generally, a Limited partner will have the right, upon 30 days' prior written notice, to request to redeem all or a portion of its Class A or Class B Partnership interests at the end of each calendar month on or after the first anniversary of its initial purchase of Partnership interests. Redemptions by one or more Limited Partners of a material percentage of the outstanding Partnership interests may materially adversely affect the Fund's liquidity and performance. The Fund may be forced to liquidate a significant portion of its assets in order to satisfy such withdrawals at a time when it would otherwise be in the best interests of the Fund not to liquidate whether due to adverse market conditions or otherwise. This risk may increase significantly if the Fund grants special withdrawal rights to any Limited partner shortening or eliminating any holding or notice requirements.

### **Concentration of Investments.**

The Fund may participate in a limited number of investments, and may seek to make several investments in one industry or one industry segment. As a result, the Fund's investment portfolio is usually highly concentrated and its aggregate return may be affected substantially by the performance of only a few holdings.

### **Non-U.S. Investments.**

The Fund may invest in securities of non-U.S. corporations and in countries other than the United States. Investing in the equity securities of non-U.S. companies involves certain considerations not usually associated with investing in securities of U.S. companies, including political and economic considerations, such as greater risks of expropriation and nationalization, the potential difficulty of repatriating funds and general social, political and economic instability; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the Fund's investment opportunities. In addition, accounting and financial reporting standards that prevail in countries other than the United States generally are not equivalent to U.S. standards and, consequently, less information may be available to investors in companies located in countries other than the United States than is available to investors in companies located in the United States. There is also less regulation, generally, of the securities markets in countries other than the United States than there is in the United States.

### **Short Selling.**

The Fund's investment portfolio may include short positions. Short selling involves selling securities, which may or may not be owned, and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from decline in the price of a particular security. A



short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Fund of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

#### **Portfolio Turnover.**

The Fund may engage in frequent short-term trading and, as a result, trading and brokerage commission expenses of the Fund may significantly exceed those of other investment entities of comparable size.

#### **Leverage and Hedging Transactions.**

The Fund may utilize a variety of aggressive investment techniques including, but not limited to, purchase of securities on margin, use of options, short term trading, derivatives, options, swaps, caps and floors, and forward contracts, both for investment purposes and for risk management purposes. While the Fund may enter into such transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Fund than if it had not engaged in any such hedging or leveraging transaction. Moreover, it should be noted that the portfolio will always be exposed to certain risks that cannot be hedged, such as credit risk (relating both to particular securities and counterparties). However, the Fund will not engage in transactions involving futures contracts and options thereon, unless the Investment Manager or Mr. O'Mealia registers as a commodity pool operator with the U.S. Commodity Futures Trading Commission ("CFTC") or qualifies for an exemption therefrom.

#### **Currency.**

The Fund may invest a portion of its assets in instruments denominated in currencies other than the U.S. dollar, the price of which is determined with reference to currencies other than the U.S. dollar. The Fund will, however, value its securities and other assets in U.S. dollars. To the extent unhedged, the value of the Fund's assets will fluctuate with U.S. dollar exchange rates as well as the price changes of the Fund's investments in the various local markets and currencies. Thus, an increase in the value of the U.S. dollar compared to the other currencies in which the Fund makes its investments will reduce, all other economic factors being constant, the effect of increases and magnify the effect of decreases in the prices of the Fund's securities in their local markets. Conversely, a decrease in the value of the U.S. dollar will have the opposite effect on the Fund's non-U.S. dollar securities. To the extent permitted, the Fund also may utilize options and forward contracts to hedge against currency fluctuations, but there can be no assurance that such hedging transactions will be effective.

#### **Counterparty and Settlement Risk.**

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

#### **Lack of Liquidity of Certain Investments.**

The Fund may invest in securities that are subject to legal and contractual restrictions on sale because, among other things, they were acquired from the issuer in “private placement” transactions. Such investments will be illiquid and difficult to value and there will generally be no collateral to secure an investment once made. The Fund will not be able to sell these securities publicly unless their sale is registered under the 1933 Act and applicable state securities laws or unless an exemption from such registration requirements is available. Registration under such laws is ordinarily within the exclusive control of the issuer. No assurance can be given that any issuer will register the partnership interests.

### **Options.**

The Fund may buy or sell (write) both call options and put options, and when it writes options it may do so on a “covered” or “uncovered” basis. Purchasing or selling put and call options are highly specialized activities and expose the Fund to significantly greater risk than ordinary investment risks.

## **Sunnymeath Partners LLC**

Sunnymeath Partners LLC is a fund pursuing an income strategy.

Risk Factors for subscribers to Sunnymeath Partners LLC include but are not limited to:

### **Limited Liquidity; In Kind Distributions.**

An investment in the Fund must be considered an illiquid investment and involves a high degree of risk. There is no public market for the membership interests, and it is not expected that a public market will develop. There are substantial restrictions on the ability of a Member to withdraw capital or to transfer its membership interests. There can be no assurance that the Fund will have sufficient cash to satisfy redemption requests, or that it will be able to liquidate investments at the time of such redemption request at favorable prices. A purchase of membership interests should be considered only by sophisticated investors financially able to maintain their investment and who can afford a loss of all or a substantial part of such investment.

### **Incentive Allocation; Conflicts of Interest.**

The Incentive Allocation is equal to 10% of the net profit of the Fund; however the portion of this percentage reallocated from the capital account of each Member is only allocated with respect to such Member to the extent that the aggregate Net Profit allocated to that Member exceeds the aggregate net loss allocated to that Member, in each case from that Member’s first becoming a Member. There is no corresponding allocation of net loss. The Incentive Allocation may create an incentive for the Investment Manager to cause the Fund to make investments that are riskier or more speculative than would be the case if there were no Incentive Allocation. The Incentive Allocation (as well as the Management Fee) was set by the Investment Manager without negotiations with any third party. In addition, since the Incentive Allocation is calculated on a basis that includes unrealized appreciation of the Fund’s assets, it may be greater than if such allocation was based solely on realized gain. The Investment Manager, Mr. O’Mealia and their affiliates will be subject to a variety of conflicts of interests in making investments on behalf of the Fund.

### **No Assurance of Fund Profit, Cash Distributions or Appreciation.**

It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before realization of gains on successful investments. There may be no current return on the investments for an extended period

of time. Distributions are declared in the sole discretion of the Investment Manager. There is no assurance that the Fund will make distributions to the Members.

### **High Risk Investments; Market Volatility.**

A potential investor should be aware that it may lose all or part of its investment in the Fund. While investments in debt and equity of companies in certain industries offer the opportunity for significant income, such investments often involve a high degree of business, financial, technological and regulatory risk, which can result in substantial losses. There is a general correlation between risk and return so that higher yielding investments often are subject to greater risk. Moreover, the Fund's investment portfolio may include investments particularly subject to increased risk because they are in companies at an early stage of development, which have been or may go into bankruptcy, acquired as leveraged buyouts subject to interest rate fluctuations, or engaged in highly competitive industries dominated by companies with substantially greater resources. The stock and bond markets are volatile and respond both to economic and financial events and conditions affecting issuers directly and to political and military events worldwide. As a result, the Fund's performance may experience substantial volatility and potential for loss over which neither it nor the Investment Manager has any control. The Investment Manager believes that the Fund's investment program and research techniques moderate this risk through a careful selection of securities and other financial instruments. There can, however, be no guarantee or representation that the Fund's program will be successful. Furthermore, certain investment techniques that the Fund expects to utilize can, in certain circumstances, increase the adverse impact to which the Fund is subject. The Fund may invest in bonds or other fixed income securities, including, without limitation, commercial paper and "higher yielding" (and, therefore, higher risk) debt securities, when the Investment Manager believes that such securities offer opportunities for increased income. Such securities may be below "investment grade" and face ongoing uncertainties and exposure to adverse business, financial or economic conditions, which could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower rated debt securities tend to reflect individual corporate developments to a greater extent than do higher rated securities, which react primarily to fluctuations in the general level of interest rates. They also tend to be more sensitive to economic conditions than are higher rated securities. Companies that issue such securities often are highly leveraged and may not have available to them more traditional methods of financing. It is likely that a major economic recession could severely disrupt the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

### **Securities of Small Capitalization Companies.**

Some of the issuers of securities in which the Fund may invest may be more vulnerable than larger companies to adverse business or market development, may have limited markets or financial resources and may lack experienced management. In addition, many micro-cap, small and medium-size companies are not well-known to the investing public, do not have significant institutional ownership and are followed by relatively few securities analysts, if any. There tends to be limited distribution of their publicly available information, which may create situations in which the prices of their securities do not completely reflect that information. Additionally, some securities traded in the over-the-counter market may have few market makers, relatively great bid/ask spread and low trading volumes, which may result in high price volatility and limited liquidity. Investments in such companies will substantially increase the risk of an investment in the Fund.

### **Competitive Market for Investments; Unidentified Investments.**

The business of identifying and structuring certain transactions of the nature contemplated by the Fund is competitive (and may become more competitive in the future), and involves a high degree of uncertainty. There can be no assurance that the Fund will be able to locate and complete attractive investments, that it will be able to adhere to the investment selection criteria outlined herein or that, if adhered to and implemented, any such investments will produce superior risk

adjusted rates of return or otherwise achieve the Fund's objectives. Furthermore, there can be no assurance that the Fund will be able to invest the entire amount of the Members' investments or that suitable investment opportunities will otherwise be identified.

#### **Effect of Material Redemptions.**

Generally, a Member will have the right, upon 30 days' prior written notice, to request to redeem all or a portion of its membership interests at the end of each calendar month on or after the first anniversary of its initial purchase of membership interests. Redemptions by one or more Members of a significant percentage of the outstanding membership interests may materially adversely affect the Fund's liquidity and performance. The Fund may be forced to liquidate a substantial portion of its assets in order to satisfy such withdrawals at a time when it would otherwise be in the best interests of the Fund not to liquidate whether due to adverse market conditions or otherwise. This risk may increase significantly if the Fund grants special withdrawal rights to any Member shortening or eliminating any holding or notice requirements.

#### **Concentration of Investments.**

The Fund may participate in a limited number of investments, and may seek to make several investments in one industry or one industry segment. As a result, the Fund's investment portfolio may be highly concentrated; and its aggregate return may be affected substantially by the performance of only a few holdings.

#### **Non-U.S. Investments.**

The Fund may invest in securities of non-U.S. corporations and in countries other than the United States. Investing in the equity securities of non-U.S. companies involves certain considerations not usually associated with investing in securities of U.S. companies, including political and economic considerations, such as greater risks of expropriation and nationalization, the potential difficulty of repatriating funds and general social, political and economic instability; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the Fund's investment opportunities. In addition, accounting and financial reporting standards that prevail in countries other than the United States generally are not equivalent to U.S. standards and, consequently, less information may be available to investors in companies located in countries other than the United States than is available to investors in companies located in the United States. There is also less regulation, generally, of the securities markets in countries other than the United States than there is in the United States.

#### **Portfolio Turnover.**

The Fund may engage in frequent short-term trading and, as a result, trading and brokerage commission expenses of the Fund may significantly exceed those of other investment entities of comparable size.

#### **Leverage and Hedging Transactions.**

The Fund may utilize a variety of aggressive investment techniques including, but not limited to, purchase of securities on margin, use of options, short term trading, short sales, derivatives, options, swaps, caps and floors, and forward contracts, both for investment purposes and for risk management purposes. While the Fund may enter into such transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Fund than if it had not engaged in any such hedging or leveraging transactions. Moreover, it should be noted that the portfolio will always be exposed to certain risks that cannot be hedged, such as credit risk (relating both to particular securities and counterparties). The Fund will not engage in transactions involving futures contracts and options thereon, unless the Investment Manager or Mr. O'Mealia

registers as a commodity pool operator with the U.S. Commodity Futures Trading Commission (“CFTC”) or qualifies for an exemption therefrom.

### **Short Selling.**

Short selling involves selling securities which may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in market prices to the extent such declines exceed the transaction costs and the costs of borrowing the securities. Due to the inability to borrow the stock of certain companies engaged in technology-related businesses, it may not be possible to short the stock of such companies from time to time. A short sale creates the risk of an unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost of buying those securities to cover the short position. This risk is enhanced if the security being sold short is highly volatile and there is a significant outstanding short interest or high trading volume, which can result in the holder of a short position being forced to purchase the securities necessary to cover the short position. These conditions exist in the stocks of many companies engaged in technology-related businesses. The securities necessary to cover a short position may be unavailable for purchase except at much higher prices. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, sometimes by a significant amount, thereby exacerbating the loss. Accordingly, a short position could result in a loss by the Partnership of all or a substantial portion of its assets.

### **Currency.**

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

### **Counterparty and Settlement Risk.**

To the extent the Fund invests in swaps or derivatives, in certain circumstances, the Fund may take a credit risk with regard to parties with whom it trades and may also bear the risk of settlement default. These investments often have no liquid trading market. These risks may differ materially from those entailed in exchange-traded transactions, which generally are backed by clearing organization guaranties, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default. The failure of certain American financial institution counterparties in 2008 contributed significantly to the disruption of the American and global capital markets at that time.

### **Lack of Liquidity of Certain Investments.**

The Fund may invest in securities that are subject to legal and contractual restrictions on sale because, among other things, they were acquired from the issuer in “private placement” transactions. Such investments will be illiquid and difficult to value and there will generally be no collateral to secure an investment once made. The Fund will not be able to sell these securities publicly unless their sale is registered under the 1933 Act and applicable state securities laws or unless an exemption from such registration requirements is available. Registration under such laws is ordinarily within the exclusive

control of the issuer. No assurance can be given that any issuer will register these securities. Even certain of the publicly traded securities that the Fund may acquire may have limited trading volume which tends to reduce the liquidity of these securities.

### **Options; Short Sales.**

The Fund may buy or sell (write) both call options and put options, and when it writes options it may do so on a “covered” or “uncovered” basis. Purchasing and selling put and call options are highly specialized activities and expose the Fund to significantly greater risk than ordinary investment risks. The Fund may also sell securities short, which means that it borrows the securities that it delivers to the counterparty and must replace those securities within a defined time period. If the price of those securities increases during that time period, this would expose the Fund to potentially unlimited liability to purchase replacement securities.

### **Navesink River Partners, LP**

Navesink River Partners, LP pursues a growth strategy by seeking opportunities in holdings of common stocks, convertible issues and preferred stocks.

Risk Factors for subscribers to Navesink River Partners, LP include but are not limited to:

#### **General**

There is no assurance that the General Partner will accurately foresee changes in the markets or that it can successfully invest for profits in the short term. This form of investing is normally considered to involve high risk because of the difficulty of foreseeing the course that the markets will follow in the short term. Nevertheless, the General Partner believes that its value discipline will allow partners to participate in market upturns and will attempt to outperform the major stock market indices over a longer-term basis. It should be noted that substantially higher brokerage commissions could be incurred during periods of rapid turnover in the Partnership's portfolio due to high levels of volatility in the equity markets. The General Partner's compensation may be higher than alternative compensatory arrangements to other money managers.

### **Edgewood Partners, LP**

Edgewood Partners, LP is a balanced fund pursuing a growth and income strategy. Risk Factors for subscribers to Edgewood Partners include but are not limited to:

#### **General**

There is, of course, no assurance that the General Partner will accurately foresee changes in the markets or that it can successfully invest for profits in the short term. In addition, this form of investing is normally considered to involve high risk because of the difficulty of foreseeing the course that the markets will follow in the short term. Nevertheless, the General Partner believes that the use of better-quality high yield bonds should enhance the returns to the portfolio, and with lower volatility than an equity-only portfolio. Furthermore, there are certain additional costs associated with following the policy outlined above. First, substantially higher brokerage commissions are incurred during periods of rapid turnover in the partnership's portfolio. Second, the fee paid to the General Partner is higher than what would be the case for many portfolios because the General Partner must devote more time to following the portfolio and the numerous factors that influence short-term market movements.



## **Item 9 Disciplinary Information**

Seelaus AM has never been the subject of any material disciplinary actions related to its advisory business or the integrity of management.

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

### **Registered Representative of a Broker-Dealer**

Some of our representatives are also registered representatives of R. Seelaus & Co., LLC (“RSCO”), a Securities and Exchange Commission registered, FINRA member securities broker-dealer. If you so choose, you may work with one of these dually registered investment adviser representatives in his or her separate capacity as a registered representative of RSCO. When acting in his or her separate capacity as a registered representative of RSCO, your Seelaus AM investment adviser representative has the ability to buy or sell, for a commission, general securities products such as stocks, bonds, mutual funds, exchange-traded funds, and variable annuity and variable life products to you in a separate commission-based brokerage account. As a registered representative of RSCO, your Seelaus AM investment adviser representative has the ability to suggest that you implement investment advice by purchasing securities products through a commission-based brokerage account in addition to, or in lieu of, a fee-based investment advisory account. This ability to receive commissions in lieu of a fee-based compensation structure creates a potential conflict of interest, as a dually registered representative has an incentive to recommend products for which he or she can receive a commission in his or her separate capacity as a registered representative of a securities broker-dealer. Consequently, the objectivity of the advice rendered to you could be biased.

You are under no obligation to use the services of your Seelaus AM representative in this separate capacity of registered representative or to use RSCO to implement securities transactions. If you choose to have your Seelaus AM representative implement securities transactions in their separate capacity as a registered representative of the broker-dealer, they must use RSCO. Prior to effecting any such transactions, you are required to establish a separate account with RSCO. The commissions charged by RSCO may be higher or lower than those charged by other broker/dealers. In addition, registered representatives of RSCO may also receive additional ongoing 12b-1 fees for mutual fund purchases from mutual fund companies during the period that you maintain mutual fund investments in the separate commission-based brokerage account at RSCO.

### **Insurance Agent**

If you so choose, you may work with your Seelaus AM investment adviser representative in his or her separate capacity as an insurance agent for RSC Financial Products LLC, an affiliated insurance agency. When acting in his or her separate capacity as an insurance agent, your Seelaus AM investment adviser representative may sell, for commissions, general disability insurance, life insurance, annuities, and other insurance products to you. As such, your Seelaus AM investment adviser representative, in his or her separate capacity as an insurance agent, may suggest that you implement his or her insurance recommendations by purchasing disability insurance, life insurance, annuities, or other insurance products. This receipt of commissions creates an incentive for the representative to recommend those products for which your Seelaus AM investment adviser representative will receive a commission, in his or her separate capacity as an insurance agent. Consequently, the advice rendered to you could be biased. You are under no obligation to implement any insurance or annuity transaction through your Seelaus AM investment adviser representative.

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

Seelaus AM has established a mandatory Code of Ethics (“COE”) within its Compliance framework for all supervised persons to follow. The COE requires employees to carry out their responsibilities with a high standard of business conduct and fiduciary duty to its clients. The COE includes provisions relating to, the oversight of employee personal trading activities regarding the preclearance of trades and the collection of personal account statements, gifts and entertainment given or received, Firm or employee conflicts of interest, and any business activities outside of Seelaus AM. Clients or prospective clients may request a copy of the firm’s COE by contacting Seelaus AM through Investor Relations at [ir@seelausam.com](mailto:ir@seelausam.com).

### **Restructuring Transactions**

Seelaus AM has three employees who may utilize their employment with RSCO to assist in executing MBS bond-restructuring transactions. These specific transactions may generate revenue for RSCO and Seelaus AM employees in their capacity with RSCO. This creates a potential conflict of interest. These bond-restructuring transactions are generally limited to; new issue CMOs, RE-REMICs and MACR and other Exchange Class exchanges (all mortgage backed securities or “MBS”). RSCO would take an economic interest in an MBS bond, from this bond a restructuring would occur to create two or more new bonds, where the new bonds equal the sum or great than the sum of the original bond. The pricing used for one of the component bonds has an effect on the pricing of the other component bonds. RSCO would work with a third- party Broker Dealer who has an open shelf with a government-sponsored enterprise (“GSE”) (e.g., Fannie Mae, Freddie Mac or Ginnie Mae) to facilitate the transactions. The third-party Broker Dealer will ultimately take ownership of the base bond, execute the restructuring and deliver to RSCO and/or Seelaus AM client’s custodians the new bonds. These transactions occur when Seelaus AM identifies a security that once restructured, one or more of the new bonds are deemed suitable investments for Seelaus AM clients. When one of the new bonds created is not a suitable investment for Seelaus AM clients, RSCO will sell the bonds to a non-Seelaus AM client. Identifying and executing these transactions assists Seelaus AM in purchasing suitable bonds for Seelaus AM clients that are otherwise unavailable in the market.

Seelaus AM’s Policies and Procedures permit personal trading by employees, provided that transactions are pre-cleared in advance and copies of personal brokerage statements are sent to the Compliance Department. Securities transactions in employee and employee related accounts for accounts held at Seelaus AM’s clearing firm are reported on daily surveillance reports reviewed. The balance of personal transactions held at other financial institutions are monitored through a review of personal account brokerage statements received. It is the employee’s responsibility to ensure that the CCO receives all personal account brokerage statements, confirmations, and / or trade advices in a timely manner and for the pre-clearance of personal account trades.

All outside personal brokerage accounts must be approved by the CCO, or qualified designee, in advance of opening accounts a new account or upon hire if the employee held a pre-existing personal account relationship.

Employees are prohibited from purchasing, selling or recommending the purchase or sale of a security for any account while they are in possession of material non-public information. If any employee comes into possession of any material inside information, they are obligated to bring such information to the attention of the CEO, CCO and/or CIO.

## **Item 12 Brokerage Practices**

As part of its fiduciary duty to clients, Seelaus AM has an obligation to seek the best price and execution of client transactions when Seelaus AM is in a position to direct brokerage transactions. While not defined by statute or regulation, “best execution” generally means the execution of client trades at the best net price considering all relevant circumstances. Seelaus AM will seek best execution with respect to all types of client transactions, including: equities, fixed income,

options, futures and any other types of transactions that may be made on behalf of clients.

### **Directed Brokerage.**

Seelaus AM does not accept directed brokerage arrangements.

### **Allocation of Investment Opportunities.**

Seelaus AM has a fiduciary duty to act in the best interests of its clients, which includes allocating investment opportunities in a fair and equitable manner. Seelaus AM must not favor one client over another. In general, the following is taken into consideration for any given client, as applicable:

- Available capital
- Geographic location and/or target market
- Investment guidelines of the respective client
- Risk profile
- Leverage requirements/limitations
- Capital expenditure requirements
- Yield requirements

Seelaus AM offers several investment different investment strategies to clients, with each strategy having its own allocation process as described below.

#### **MBS:**

Allocating MBS into client accounts is a matching process involving both qualitative and quantitative consideration factors. Discretion is used to evaluate whether any security, if added to a client's account, would create an undesirable portfolio allocation. Concentration risk, available cash/limited cash and risk profiles are closely considered prior to allocation of securities.

Taking into account these considerations, the following allocation methodology is utilized.

Client accounts are checked for matches to a security and if appropriate, allocations are made pro-rata to accounts. If no client account matches are found, allocation will go to accounts with >20% cash balances and if not allocated to any accounts, then a waterfall allocation process will be used.

#### **Waterfall Allocation**

Using a waterfall allocation, the last client receiving securities in the previous allocation would fall down to the bottom of the list.

Example using 4 clients, #1, #2, #3,#4:

*Buy Imm bond A...*

#1 has cash to buy, suitable investment, allocate \$500m

#2 has cash to buy, not suitable, skip

#3 has cash to buy, suitable investment, allocate \$500m

#4 has cash but does not receive any bonds

*Then we buy Imm bond B...*

#4 has cash to buy, suitable investment, allocate \$750m

#1 has cash to buy, suitable investment, allocate \$250m

#2 has cash but does not receive any bonds

#3 has cash but does not receive any bonds

*And then we buy Imm bond C*

#2 has cash to buy, suitable investment allocate \$250m

#3 no cash available to buy, skip

#4 has cash to buy, not suitable, skip

#1 has cash to buy, suitable investment allocate \$750m

#### Waterfall Allocation Guidelines

Min/Max Size: Minimum and maximums for new positions are set for a majority of clients.

Bond Risk Profile: Determine a bond's risk profile is suitable for the client's investment objective within their account.

Client Constraints: Existence of any client directed temporary or permanent constraints.

Suitability Constraints: Maintain grid of other bond suitability attribute qualifiers.

Target Allocation: Maintain target allocation across sectors.

Limited quantity MBS bonds: In instances where there are MBS bonds in limited quantity, if the waterfall process is not followed, separate documentation will be made describing the reasoning, etc. The CCO will approve deviations and maintain copies of the separate documentation.

Exceptions: From time to time, there may be a specific need within an account which is unique compared to the other accounts. When we are able to purchase a bond that meets that specific need, the waterfall allocation process may not be observed. In these cases, separate documentation will be made describing the reasoning, etc. The CCO will approve and maintain copies of the separate documentation.

### **Municipals**

Allocating purchased municipal bonds is a matching process that involves the consideration of a variety of factors to make sure that bonds are placed in appropriate portfolios. The municipal bond market is quite large and diverse with a variety of sectors, issuers, coupons, maturities, call features and credit ratings. Clients are diverse in their objectives, risk tolerance and state residences. Allocating purchased municipal bonds involves a careful assessment of matching the specific characteristics of each bond with the specific needs of each client portfolio.

Portfolios with a larger percentage of existing cash to total portfolio value tend to be allocated bonds before those portfolios with smaller percentages. Portfolios with larger cash to portfolio value percentages often require multiple bond blocks to get fully invested. The number of blocks needed to invest cash fully factors into allocation decisions, i.e. those portfolios with multiple blocks needed tend to be allocated first.

When allocating purchased municipal bonds to portfolios, Seelaus AM considers how long cash has been working in a money market fund awaiting investment. Portfolios that have had cash awaiting investment for the longest period tend to be allocated first.

Each bond purchase for each client portfolio is viewed from the perspective of the portfolio as a whole. How a new bond added into any portfolio would meet client objectives and blend in with the existing portfolio from the perspective of maturity, duration, coupon, credit rating, state, sector, bond structure, etc. are contemplated. Should there be an exception and the process described require a deviation, the circumstances and approval will be documented by the CCO who will maintain separate documentation copies.

### **High Yield**

Allocations take into account quantitative and qualitative factors and are not conducted strictly on a pro-rata basis. The Portfolio Manager considers portfolio size, investable cash position, client's risk tolerance and existing portfolio positions (i.e., the client already owns the security, another issuer security, or a comparable company's securities) Portfolio compositions are also closely considered (i.e., whether or not the client owns too many securities with similar structures or

within the same industry or rating category) In general, portfolios with a larger percentage of existing cash compared with the total portfolio value will be considered first, however the size of the portfolio is also closely considered. Based upon the evaluations of the afore mentioned considerations, allocations tend to be tiered and rounded (\$10k, \$20k, etc.) to facilitate trading.

#### **Block Trade/New Issue Allocation**

In a new issue allocation where the Portfolio Manager is allocating a limited supply of securities, allocations will take into consideration all qualitative factors with additional priority given first to client accounts with no relation to Seelaus AM, secondly to related and R. Seelaus & Co. employee accounts and lastly to Seelaus AM employee accounts.

### **Equities**

When the Portfolio Manager identifies a company, whose shares represent an attractive investment, they identify the accounts it would fit based upon the risk profile and other characteristics such as amount of leverage or whether it pays a dividend. The Portfolio Manager also looks at the current cash in prospective client accounts to determine if a sale is needed to create cash and if so doing would create a capital gain for taxable accounts. After that analysis, the Portfolio Manager determines the number of shares the Firm wants to buy. Generally speaking, all the companies Seelaus AM invests in have the liquidity such that a purchase or sale can happen without disturbing the market and promoting best execution. For less liquid names and issues, it sometimes requires buying the securities over a day or two. When that happens, Seelaus AM will split the order over those days and sometimes will execute partial positions and look to execute the other part of the trade in ensuing days. The allocation of what Seelaus AM wants to buy or sell is determined before the order is entered and orders are bunched to get best execution and so that certain accounts do not benefit over others.

### **Equity Short Sales**

When Seelaus AM researches companies that appear to be selling at low relative valuations, sometimes a Portfolio Manager uncovers companies whose fundamentals do not warrant purchase and whose shares could fall further. Seelaus AM then looks to see if the shares have options available which would allow the Firm to construct a stop loss by buying calls and sometimes reducing that expense by simultaneously selling puts. This limits and / or collars the risk of significant loss should the shares rise. Seelaus AM judges whether the options are attractively priced such that the firm can ensure that it would not lose more than 10% should a short sale go against the Firm.

Only those accounts which permit Seelaus AM to sell short securities are considered and based upon the cash and risk levels of the portfolios being reviewed, a determination is made as to how many shares to short. Then Seelaus AM would see if a locate was available from any brokers on the Firm's approved broker list, and would get that locate confirmed before entering the short sale order. To reduce the market risk of the underlying portfolios, Seelaus AM sometimes will also short specific ETFs. This will enable the Firm to protect against a fall in certain sectors of the market, or enable the Firm to capitalize on perceived over valuation and risk associated with certain sectors. When Seelaus AM shorts sector ETFs, the Firm may or may not use options to reduce the risk of said short.

### **IPOs**

Seelaus AM does not generally participate in IPOs. However, in the event Seelaus AM does, it will seek to allocate IPOs in a manner that is fair to all Clients and/or Investors. For each IPO in which Client or Private Fund accounts seek to participate, the Portfolio Manager will prepare a written pre allocation prior to Seelaus AM submitting an indication of interest. The Portfolio Manager will seek to establish a pre allocation that is fair in light of each account's size, diversification, cash availability, eligibility to participate (per FINRA Rules 5130 and 5131), investment objectives, and any other relevant factors. Any deviations from that will require written approval by the CCO.

### **Trade Errors.**

The utmost care must be taken in making and implementing investment decisions on behalf of Client accounts. Seelaus AM defines the scope of a trade error as anything within the life cycle of a trade that was within the firm's control that does not go as Seelaus AM intended. Seelaus AM resolves to remediate errors in a timely manner with our clients and investors best interest as a primary objective in the resolution process.

### **Trade Error resolution for Separate Accounts**

Separate Account trades are reconciled T+1 by the Head of Operations using Seelaus AM's internal trade blotter and Custodian data feeds. If a trade error is discovered during reconciliation, immediate steps are taken to determine the scope and nature of the discrepancy. Our policy is to identify and correct any errors as promptly as possible and in the best interest of the affected clients. If Seelaus AM is responsible for the error, the firm will be responsible for any client loss resulting from an inaccurate or erroneous order. If the error is outside Seelaus AM's control, the Firm will make the clients whole for the error and will advocate for corrective action with the responsible counterparty. Should the error result in a gain, the Separate Account would be the beneficiary.

### **Trade Error resolution for Private Funds**

All fund trades are reconciled on T+1 by the Head of Operations using Seelaus AM's internal trade blotter and the Prime Broker's record. If a trade error is discovered during reconciliation, immediate steps are taken to determine the scope and nature of the discrepancy. Our policy is to identify and correct any errors as promptly as possible and in the best interest of the investors within the fund. If Seelaus AM is responsible for the error, the firm will be responsible for any loss with the affected private fund resulting from an inaccurate or erroneous order. If the error is outside Seelaus AM's control, the Firm will make the funds whole for the error and will advocate for corrective action with the responsible counterparty. Should the error result in a gain, Seelaus AM's private funds would be the beneficiary.

## **Item 13 Review of Accounts**

Client accounts are reviewed periodically. Clients are encouraged to communicate any changes in their financial situation that may have an impact on their portfolio investment objectives. Reviews directly with clients are provided on a requested basis.

Internally, client accounts are reviewed quarterly on a sample basis. The review will include (but is not limited to) the following:

1. Account performance
2. Suitability of investments compared with stated investment objectives
3. Trading and rebalancing activity
4. Contribution and withdrawal activity
5. Changes in account profile
6. Review of the Investment Advisory Contract ("IAC")
7. Review of any standing instructions

Reviews are conducted by approved reviewers (CIO, CEO, CCO) are further discussed with each relevant representative and signed off by our CCO.

Account reviews may also be triggered by market events, rebalancing of securities positions, and/or a change in a client's financial situation, or by client request.



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

Seelaus AM does not receive an economic benefit from investment advice or other advisory services provided to clients by outside firms.

Seelaus AM has entered into third party solicitor's agreements. Solicitors will perform their responsibilities in accordance with the instructions of Seelaus AM and the Investment Advisers Act and the rules thereunder including Rule 206(4)-3. RSCO and its registered representatives also refer individuals to Seelaus AM and can be compensated for those referrals.

## **Item 15 Custody**

Under government regulations, Seelaus AM is deemed to have custody of client assets if a client authorizes us to instruct any custodian to deduct our advisory fees directly from your account. In limited cases, Seelaus AM is also deemed to have custody over accounts with standing letters of authorization ("SLOAs") on file. However, Seelaus AM closely monitors those accounts to ensure proper processing of all SLOAs, including title matching between the distributing and recipient accounts and that no recipient accounts have the same address of Seelaus AM or an affiliated entity. The custodian on your account maintains physical custody of your assets. Clients will receive account statements directly from their designated custodian at least quarterly at the email address or postal mailing address provided to the custodian. Clients should carefully review those statements promptly upon receipt. Seelaus AM urges all clients to compare custodian statements to the periodic account statements/portfolio reviews received from us. Seelaus AM has a reasonable basis to believe Clients receive these statements from their respective designated custodians. If you are not receiving custodial statements, please contact Seelaus AM.

Seelaus AM is also deemed to have custody of client assets through our role as General Partner and/or adviser to the Seelaus AM Private Funds. The funds are independently audited by a Public Company Accounting Oversight Board ("PCAOB") registered and inspected auditor in accordance with U.S. Generally Accepted Auditing Standards on an annual basis and investors will receive audited fund financial statements prepared in accordance with U.S. GAAP within 120 days of the fund's fiscal year end. The custodian of the funds maintains physical custody of the assets. Clients will receive account statements directly from the administrator or custodian on a quarterly basis.

## **Item 16 Investment Discretion**

Seelaus AM typically accepts discretionary authority to manage investment accounts on behalf of clients. Discretion is exercised within the scope of the client's investment objectives and is consistent with the agreed upon strategy in place. Before accepting investment discretion, Seelaus AM requests that clients execute appropriate legal documentation that authorizes the Firm to have discretion in the purchase and sale of securities but restricts cash withdrawals to those requested on behalf of the client and with regard to payment of quarterly investment advisory fees.

Investment discretion is not mandatory and clients may execute their wishes regarding non-discretionary arrangements on their individual Investment Advisory Contracts. In the event that discretion is not granted, investment adviser representatives must obtain approval to engage in trading activities on behalf of a client's account.

## **Item 17 Voting Client Securities**

As noted in Seelaus AM's investment advisory contracts, Seelaus AM does not vote proxies in Separate Accounts. With respect to private funds, given the relative position size the Fund would take at any given time, the cost of voting proxies

would outweigh the benefit to the investors. Therefore, in the best interest of the investors, Seelaus AM does not vote proxies within the private funds.

Clients may obtain information from Seelaus AM regarding its proxy voting policies and procedures by contact the CCO at 212-935-0755.

Seelaus AM does not participate in class actions. Should Seelaus AM become aware of an appropriate settlement related to its prior or current securities holdings, it will use best efforts to collect settlement proceeds on behalf of its clients and investors.

### **Item 18 Financial Information**

Seelaus AM does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

The Firm does not have any financial commitment that would impair its ability to fulfill contractual and fiduciary commitments to clients.

Neither Seelaus AM nor any of its Principals have been the subject of a bankruptcy petition at any time in the past ten years.

### **Item 19 Privacy Disclosure Document**

Attached please find a copy of Seelaus AM's Privacy Policy.

## FACTS

### WHAT DOES SEELAUS ASSET MANAGEMENT, LLC DO WITH YOUR PERSONAL INFORMATION?

Why?	Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.																							
What?	The types of personal information we collect and share depend on the product or service you have with us. This information can include: <ul style="list-style-type: none"><li>■ Social Security number and Age and Assets</li><li>■ Name and Address and Risk Tolerance</li><li>■ Income and Tax Bracket and Wire Instructions</li></ul>																							
How?	All financial companies need to share <b>customer</b> personal information to run their everyday business. In the section below, we list the reasons financial companies can share their <b>customer</b> personal information; the reasons <b>Seelaus Asset Management, LLC</b> chooses to share; and whether you can limit this sharing.																							
<table><tr><th>Reasons we can share your personal information</th><th>Does Seelaus Asset Mgmt. share?</th><th>Can you limit this sharing?</th></tr><tr><td><b>For our everyday business purposes—</b> such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus</td><td>Yes</td><td>No</td></tr><tr><td><b>For our marketing purposes—</b> to offer our products and services to you</td><td>Yes</td><td>Yes</td></tr><tr><td><b>For joint marketing with other financial companies</b></td><td>No</td><td>No</td></tr><tr><td><b>For our affiliates' everyday business purposes—</b> information about your transactions and experiences</td><td>No</td><td>No</td></tr><tr><td><b>For our affiliates' everyday business purposes—</b> information about your creditworthiness</td><td>No</td><td>No</td></tr><tr><td><b>For nonaffiliates to market to you</b></td><td>No</td><td>No</td></tr></table>				Reasons we can share your personal information	Does Seelaus Asset Mgmt. share?	Can you limit this sharing?	<b>For our everyday business purposes—</b> such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	Yes	No	<b>For our marketing purposes—</b> to offer our products and services to you	Yes	Yes	<b>For joint marketing with other financial companies</b>	No	No	<b>For our affiliates' everyday business purposes—</b> information about your transactions and experiences	No	No	<b>For our affiliates' everyday business purposes—</b> information about your creditworthiness	No	No	<b>For nonaffiliates to market to you</b>	No	No
Reasons we can share your personal information	Does Seelaus Asset Mgmt. share?	Can you limit this sharing?																						
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<b>For our affiliates' everyday business purposes—</b> information about your creditworthiness	No	No																						
<b>For nonaffiliates to market to you</b>	No	No																						
To limit our sharing	<ul style="list-style-type: none"><li>■ Call 212-935-0755 —our menu will prompt you through your choice(s) or</li><li>■ Visit us online: <a href="http://www.rseelaus.com">www.rseelaus.com</a></li></ul> <p><b>Please note:</b></p> <p>If you are a <i>new</i> customer, we can begin sharing your information 1 days from the date we sent this notice. When you are <i>no longer</i> our customer, we continue to share your information as described in this notice.</p> <p>However, you can contact us at any time to limit our sharing.</p>																							
Questions?	Call 212-935-0755 or go to <a href="http://www.rseelaus.com">www.rseelaus.com</a>																							

Who we are	
Who is providing this notice?	Seelaus Asset Management, LLC Attn: Compliance Department
What we do	
How does Seelaus Asset Management protect my personal information?	To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.  In addition, the Firm limits information to only those persons who have a need to perform the services which are requested.
How does Seelaus Asset Management collect my personal information?	We collect your personal information, for example, when you <ul style="list-style-type: none"> <li>■ Open an account or Have a life-changing event</li> <li>■ Discuss your account or As requested by the client</li> <li>■ Periodically when we inquire if the account information is current</li> </ul>
Why can't I limit all sharing?	Federal law gives you the right to limit only <ul style="list-style-type: none"> <li>■ sharing for affiliates' everyday business purposes—information about your creditworthiness</li> <li>■ affiliates from using your information to market to you</li> <li>■ sharing for nonaffiliates to market to you</li> </ul> State laws and individual companies may give you additional rights to limit sharing.
What happens when I limit sharing for an account I hold jointly with someone else?	Seelaus Asset Management, LLC will inquire of the joint account holder to verify that the limitation on sharing applies to them as well.
Definitions	
Affiliates	Companies related by common ownership or control. They can be financial and nonfinancial companies. <ul style="list-style-type: none"> <li>■ <i>R. Seelaus &amp; Co., LLC (US SEC Registered Broker-Dealer)</i> <i>RSC Financial Products, LLC (Insurance Affiliate)</i> <i>Seelaus Asset Mgmt does not share information with affiliates.</i></li> </ul>
Nonaffiliates	Companies not related by common ownership or control. They can be financial and nonfinancial companies. <ul style="list-style-type: none"> <li>■ <i>Our clearing firm BNY Pershing</i> <i>Third parties to whose systems we subscribe to fulfill the activities on your account (e.g. order entry systems)</i></li> </ul>
Joint marketing	A formal agreement between nonaffiliated financial companies that together market financial products or services to you. <ul style="list-style-type: none"> <li>■ <i>We do not share information with non-affiliated financial companies.</i></li> </ul>
Other important information	
Thank you for the privilege of servicing your financial needs. Should you have any questions regarding this notice, please do not hesitate to call us at 212-935-0755 or via USPS mail at 26 Main Street, Suite 304, Chatham, NJ 07928.	