

## ITEM 1 COVER PAGE

---

### PART 2A OF FORM ADV: FIRM BROCHURE

#### AROSA CAPITAL MANAGEMENT LP

March 2021

---

Arosa Capital Management LP  
550 West 34th Street  
Suite 2800  
New York, NY 10001  
Tel: (212) 218-0550  
Fax: (212) 218-0560  
Website: [www.arosacapital.com](http://www.arosacapital.com)

*This brochure (this “Brochure”) provides information about the qualifications and business practices of Arosa Capital Management LP (the “Investment Adviser”, “we”, “us” and similar terms). If you have any questions about the contents of this Brochure, please contact us at (212) 218-0550 or [inquiry@arosacapital.com](mailto:inquiry@arosacapital.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.*

*This Brochure also relates to Arosa Capital Management GP LLC (the “General Partner”). Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.*

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

## **ITEM 2**

### **MATERIAL CHANGES**

We are updating this Brochure as part of our annual amendment for our SEC registration. We do not believe there are any material changes from our previous filing, although certain clarifying amendments and general updates have been incorporated into this brochure. As a result, we recommend reading the Brochure in its entirety.

# **ITEM 3** **TABLE OF CONTENTS**

ITEM 1 COVER PAGE .....	i
ITEM 2 MATERIAL CHANGES .....	ii
ITEM 3 TABLE OF CONTENTS .....	iii
ITEM 4 ADVISORY BUSINESS .....	1
A. General Description of Advisory Firm .....	1
1. Arosa Capital Management LP .....	1
2. Arosa Capital Management Market Neutral GP II LLC, Arosa Capital Management Opportunistic GP II LLC and Arosa Capital Management Alternative Energy Fund GP LLC .....	1
B. Description of Advisory Services .....	1
1. Advisory Services .....	1
2. Investment Strategies and Types of Investments .....	3
C. Availability of Customized Services for Individual Clients .....	3
ITEM 5 FEES AND COMPENSATION .....	5
A. Advisory Fees and Compensation .....	5
B. Payment of Fees .....	5
C. Additional Fees and Expenses .....	5
D. Additional Compensation and Conflicts of Interest .....	6
ITEM 6 PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT .....	7
ITEM 7 TYPES OF CLIENTS .....	8
ITEM 8 METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .....	9
A. Methods of Analysis and Investment Strategies .....	9
B. Material, Significant or Unusual Risks Relating to Investment Strategies .....	10
C. Risks Associated With Particular Types of Securities .....	18
ITEM 9 DISCIPLINARY INFORMATION .....	24
ITEM 10 OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS .....	25
A. Broker-Dealer Registration Status .....	25
B. Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Adviser Registration Status .....	25
C. Material Relationships or Arrangements with Industry Participants .....	25
D. Material Conflicts of Interest Relating to Other Investment Advisers .....	25
ITEM 11 CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING .....	26
A. Code of Ethics .....	26
B. Securities in Which We or a Related Person Have a Material Financial Interest .....	26
1. Cross-Trades .....	26
2. Principal Transactions .....	26
C. Investing in Securities that the Investment Adviser or a Related Person Recommends to Clients .....	27

D. Conflicts of Interest Created by Contemporaneous Trading.....	27
ITEM 12 BROKERAGE PRACTICES.....	29
A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions.....	29
1. Research and Other Soft Dollar Benefits.....	29
2. Brokerage for Client Referrals.....	30
3. Directed Brokerage.....	30
B. Order Aggregation.....	30
ITEM 13 REVIEW OF ACCOUNTS .....	32
A. Frequency and Nature of Review of Client Accounts or Financial Plans. ....	32
B. Factors Prompting Review of Client Accounts Other than a Periodic Review. ....	32
C. Content and Frequency of Account Reports to Clients. ....	32
ITEM 14 CLIENT REFERRALS AND OTHER COMPENSATION.....	33
A. Economic Benefits for Providing Services to Non-Clients. ....	33
B. Compensation to Non-Supervised Persons for Client Referrals.....	33
ITEM 15 CUSTODY .....	34
ITEM 16 INVESTMENT DISCRETION .....	35
ITEM 17 VOTING CLIENT SECURITIES.....	36
A. Policies and Procedures Relating to Voting Client Securities.....	36
ITEM 18 FINANCIAL INFORMATION .....	37

## ITEM 4 ADVISORY BUSINESS

### A. General Description of Advisory Firm.

#### 1. *Arosa Capital Management LP*

The Investment Adviser is a Delaware limited partnership that was formed in 2013.

We have offices located in New York, New York and Dallas, Texas.

We are controlled by our principal owners, Till Bechtolsheimer and Abraham Joseph (each, a “Principal Owner”), who are limited partners of the Investment Adviser and also act as members of the General Partner. The General Partner has ultimate responsibility for our management, operations and investment decisions.

We commenced operations on January 2, 2014.

#### 2. *Arosa Capital Management Market Neutral GP II LLC, Arosa Capital Management Opportunistic GP II LLC, Arosa Capital Management Alternative Energy Fund GP LLC and Arosa Ventures GP LLC*

Arosa Capital Management Market Neutral GP II LLC (the “Market Neutral General Partner”), Arosa Capital Management Opportunistic GP II LLC (the “Opportunistic General Partner”), Arosa Capital Management Alternative Energy Fund GP LLC (the “Alternative Energy General Partner”), Arosa Ventures GP LLC (the “Ventures General Partner” and together with the Opportunistic General Partner, the Market Neutral General Partner and the Alternative Energy General Partner, the “Fund General Partners”), limited liability companies organized under the laws of the State of Delaware, are affiliated entities that serve as the general partners of pooled investment vehicles that are U.S. or offshore partnerships. The Fund General Partners’ facilities and personnel are provided by us.

The Principal Owners are the principal owners of, and control, the Fund General Partners.

### B. Description of Advisory Services.

This Brochure generally includes information about us and our relationships with our clients. While much of this Brochure applies to all such clients, certain information included herein applies to specific clients only. As used herein, the term “client” or “clients” shall be deemed to include the Funds (as defined below) and any other clients for which the Investment Adviser provides continuous and regular supervisory or management services, but shall not be deemed to refer to underlying investors in our Funds.

#### 1. *Advisory Services.*

We serve as the investment adviser, with discretionary trading authority, to private pooled investment vehicles, the securities of which are offered to investors on a private placement basis (each, a “Fund” and collectively, the “Funds”). The Funds include:

- (1) Arosa Capital Management Market Neutral Fund LP, a Delaware limited partnership (the “Market Neutral Domestic Fund”);
- (2) Arosa Capital Management Market Neutral Offshore Fund Ltd., a Cayman Islands exempted company (the “Market Neutral Offshore Fund”, and together with the Market Neutral Domestic Fund, the “Market Neutral Feeder Funds”);

- (3) Arosa Market Neutral Fund LP, a Cayman Islands exempted limited partnership (the “Market Neutral Master Fund”), which serves as the master fund into which the Market Neutral Feeder Funds invest substantially all of their assets in a “master feeder” structure;
- (4) Arosa Capital Management Opportunistic Fund LP, a Delaware limited partnership (the “Opportunistic Domestic Fund”);
- (5) Arosa Capital Management Opportunistic Offshore Fund LP, a Cayman Islands exempted limited partnership (the “Opportunistic Offshore Fund”);
- (6) Arosa Opportunistic Intermediate Fund LP, a Cayman Islands exempted limited partnership (the “Opportunistic Intermediate Fund”);
- (7) Arosa Opportunistic Fund LP, a Cayman Islands exempted limited partnership (the “Opportunistic Master Fund”), which serves as the master fund into which the Opportunistic Domestic Fund and the Opportunistic Offshore Fund (through the Opportunistic Intermediate Fund) invest substantially all of their assets in a “master feeder” structure;
- (8) Arosa Capital Management Alternative Energy Fund LP, a Delaware limited partnership (the “Alternative Energy Domestic Fund”);
- (9) Arosa Capital Management Alternative Energy Offshore Fund LP, a Cayman Islands exempted limited partnership (the “Alternative Energy Offshore Fund”, and together with the Alternative Energy Domestic Fund, the “Alternative Energy Feeder Funds”);
- (10) Arosa Alternative Energy Fund LP, a Cayman Islands exempted limited partnership (the “Alternative Energy Master Fund”) which serves as the master fund into which the Alternative Energy Feeder Funds invest substantially all of their assets in a “master feeder” structure; and
- (11) Arosa Ventures LP, a Delaware limited partnership (the “Ventures Fund”)

Additionally, certain Funds make, and may in the future make, investments through one or more entities serving as special purpose vehicles for such Funds.

The Market Neutral General Partner serves as the general partner of the Market Neutral Domestic Fund and the Market Neutral Master Fund.

The Opportunistic General Partner serves as the general partner of the Opportunistic Domestic Fund, the Opportunistic Offshore Fund, the Opportunistic Intermediate Fund and the Opportunistic Master Fund.

The Alternative Energy General Partner serves as the general partner of the Alternative Energy Domestic Fund, the Alternative Energy Offshore Fund and the Alternative Energy Master Fund.

The Ventures General Partner serves as the general partner of the Ventures Fund.

*This Brochure does not constitute an offer to sell or a solicitation of an offer to buy any securities. The securities of the Funds are offered and sold on a private placement basis under exemptions promulgated under the Securities Act of 1933 and other applicable state, federal or non-U.S. laws. Significant suitability requirements apply to prospective investors in the Funds, including requirements that they generally be “accredited investors” as defined in Regulation D, “qualified purchasers” as defined in the Investment Company Act, or non-”U.S. Persons” as defined in Regulation S. Persons reviewing this Brochure should not construe this as an offer to sell or a solicitation of an offer to buy the securities of any of the Funds described herein. Any such offer or solicitation will be made only pursuant to definitive documents that relate specifically to a Fund, including, without limitation, a confidential private placement memorandum.*

## 2. *Investment Strategies and Types of Investments.*

The Market Neutral Master Fund's principal investment objective is to maximize investment returns while minimizing risk through a "long/short" investment strategy. The Market Neutral Master Fund invests in long positions in securities which we believe will outperform the short constituents of the portfolio on a beta-adjusted basis. The Market Neutral Master Fund targets daily market neutrality on a beta-adjusted basis. The Market Neutral Master Fund invests its assets primarily in a diversified portfolio of common stocks and options of (U.S.) domestic issuers in the energy and related sectors. To a lesser extent, the Market Neutral Master Fund invests in foreign securities.

The Opportunistic Master Fund's principal investment objective is to maximize investment returns while minimizing risk through a "long/short" investment strategy across asset classes. The Opportunistic Master Fund allocates capital across three sub-portfolios, the Opportunistic Portfolio, the Alternative Energy Portfolio and the Market Neutral Portfolio. Although the Investment Adviser generally invests the Opportunistic Master Fund's capital primarily in the Opportunistic Portfolio, it also intends to invest a varying portion of the Opportunistic Master Fund's capital in the Alternative Energy Portfolio and the Market Neutral Portfolio as determined in its discretion. The Opportunistic Portfolio invests primarily in a portfolio of equity, debt and commodity instruments, including options and private investments, in energy and related sectors. The Opportunistic Portfolio includes an investment in the Ventures Fund. The Market Neutral Portfolio invests *pari passu* with, and employs the investment strategy of, the Market Neutral Master Fund and the Alternative Energy Portfolio invests *pari passu* with, and employs the investment strategy of the Alternative Energy Master Fund.

The Alternative Energy Master Fund's principal investment objective is to maximize investment returns while minimizing risk through a "long/short" investment strategy. The Alternative Energy Master Fund invests its assets primarily in a portfolio of common stocks and options of (U.S.) domestic and international companies focused on subsectors related to alternative, renewable and energy efficient technology, including, without limitation, solar, wind, renewable fuels (including biofuels), battery storage, electric vehicles, smart grid technologies and energy efficient consumer, commercial and industrial products.

The Ventures Fund's primary purpose is to realize long-term appreciation from venture capital investments in private companies that primarily pursue alternative, renewable or efficient energy technology.

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

### C. Availability of Customized Services for Individual Clients.

Our investment decisions and advice with respect to each Fund are subject to each Fund's investment objectives and guidelines, as set forth in its respective offering documents.

If, in the future, we determine to offer separately managed accounts ("Managed Accounts"), the investment objectives and guidelines of the Managed Accounts would be determined in conjunction with the applicable client.

Certain Funds have and, may in the future establish additional classes or sub-classes having, or enter into "side letters" with investors which provide for, different or additional terms than those described in the applicable Fund's offering documents, including, without limitation, different management fee rates, incentive allocation or incentive fee rates, functional currencies, information rights and withdrawal rights. The Funds may establish new classes or sub-classes of interests, and the Funds may enter into "side letters" with investors, without providing prior notice to, or receiving consent from, other investors. Although certain investors may invest in a class, sub-class or

“side letter” offering different material terms, a Fund generally will only offer such terms if they believe other investors in such Fund will not be materially disadvantaged.

As of December 31, 2020 we managed approximately \$1,058,485,628 in regulatory advisory client assets under management on a discretionary basis. We do not manage any advisory client assets on a non-discretionary basis.

## **ITEM 5**

### **FEES AND COMPENSATION**

#### **A. Advisory Fees and Compensation.**

Investors should refer to the relevant client's offering documents for more details regarding the calculation of fees and expenses. We and the Fund General Partners typically receive compensation from the clients from the following sources: (a) management fees based on a percentage of the net asset value of each client, generally calculated at an annual rate of 2% (subject to certain conditions); and (b) performance-based allocations (such allocations, "Performance Compensation") based on a percentage of the investment gains of each client, generally calculated at a rate of 20% (subject to certain conditions). A client that invests in another client (e.g., a feeder fund and a master fund) will not pay an investment management fee and Performance Compensation at both levels.

#### **B. Payment of Fees.**

Fees and compensation paid to us by our clients are generally deducted from the assets of such clients. Management fees are generally paid by our clients monthly in arrears.

#### **C. Additional Fees and Expenses.**

In addition to the management fees and Performance Compensation described above, expenses will be charged to each client as fully disclosed in its respective offering documents. These expenses, include, without limitation: investment expenses, whether or not such investments are consummated, such as brokerage commissions, expenses relating to short sales, clearing and settlement charges, custodial fees, bank service fees and interest expenses, broken-deal, failed transaction, break-up and similar fees, costs and expenses; expenses and fees related to the purchase and sale of special investments (if applicable) whether or not the purchase and sale is consummated; fees and expenses of consultants, investment bankers, attorneys, accountants and other professionals (which may include fixed, asset-based and/or performance compensation); administrative expenses (including, without limitation, fees and expenses of the clients' administrators); Board of Directors and Advisory Committee fees (each, as defined below) (including, without limitation, travel expenses associated with attending board meetings); legal expenses; external accounting and valuation expenses (including, without limitation, the cost of accounting software packages); audit and tax preparation expenses; costs related to directors and officers insurance for the Board of Directors and professional liability insurance for members of the Advisory Committee and errors and omissions insurance incurred by us or the Fund General Partners; costs of printing and mailing reports and notices; taxes; corporate licensing; regulatory expenses; expenses related to preparing and making regulatory and compliance filings associated with the client and its investment activities (including, without limitation, filing preparation and fees incurred in connection with Form PF, Form D, Section 13 of the Securities Exchange Act of 1934, FATCA and the OECD Standard for Automatic Exchange of Financial Account Information – Common Reporting Standard), Cayman Islands filings, fees and other similar regulatory filings, software and systems in connection with such filings and expenses of service providers related to such filings, such as consultants and advisers); expenses related to a client's Swiss representative and paying agent (if applicable); organizational expenses; indemnification expenses; and other similar expenses related to each client. Generally, the client's expenses, other than management fees and any expenses which the board of directors of the Market Neutral Offshore Fund (the "Board of Directors") or the Fund General Partners, as applicable, determine in their sole discretion should be allocated to a particular shareholder or limited partner of the applicable client, are charged to all shareholders or limited partners of the applicable client on a *pro rata* basis. To the extent that expenses to be borne by the client are paid by us or the Fund General Partners, the client will reimburse us for such expenses.

If any of the expenses listed above are incurred for the account of the client as well as for any other clients of the Investment Adviser, such expenses may be allocated among the client and such other clients in proportion to relative net asset values of the client and such other clients, the size of the investment made by each to which such expense relates (if applicable), or in such other manner as the Investment Adviser considers fair and equitable.

D. Additional Compensation and Conflicts of Interest.

Neither us nor any of our supervised persons accept compensation (e.g., brokerage commissions) for the sale of securities or other investment products.

## **ITEM 6**

### **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As described in Item 5 and in each client's offering documents, we and our affiliates accept Performance Compensation from certain clients. Such Performance Compensation creates an incentive for us to make investments that are riskier or more speculative than would be the case if such arrangements were not in effect. We currently charge Performance Compensation to all clients. As a result, we believe that we do not face conflicts of interest that could arise when an investment adviser is eligible to receive performance-based compensation from some clients but not from other clients. In the future, Performance Compensation may vary among clients, not be accepted from all clients or may be waived with regards to certain investors in our clients. Any variation of Performance Compensation structures among our clients and/or investors in our clients may create an incentive for us to direct the best investment ideas to, or to allocate or sequence trades in favor of, clients that pay or allocate Performance Compensation.

In addition, our Performance Compensation is subject to a loss carryforward mechanism. As a result of this mechanism, it is possible that there will be scenarios where one or more clients or investor in our clients will be effectively assessed only a fixed management fee (until any loss carryforward or similar requirement is satisfied). The variation in the potential receipt of actual Performance Compensation among our clients may create an incentive for us disproportionately to direct the best investment ideas to, or to allocate or sequence trades in favor of, clients that are more likely to generate Performance Compensation from profitable investment or trading activity. However, we are committed to allocating investment opportunities on a fair and equitable basis and have established order aggregation and allocation policies and procedures to address the potential conflict of interest.

## **ITEM 7**

### **TYPES OF CLIENTS**

We provide investment advice to the Funds, as described above, and we may in the future provide investment advice to Managed Accounts for institutional and other investors. The offering documents of each Fund set forth the eligibility provisions and minimum subscription amounts for investors in such Fund.

## **ITEM 8**

### **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

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

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

The Market Neutral Master Fund's principal investment objective is to maximize investment returns while minimizing risk through a "long/short" investment strategy. The Market Neutral Master Fund invests in long positions in securities which the Investment Adviser believes will outperform the short constituents of the portfolio on a beta-adjusted basis. The Market Neutral Master Fund targets daily market neutrality on a beta-adjusted basis.

The Market Neutral Master Fund invests its assets primarily in a diversified portfolio of common stocks and options of (U.S.) domestic issuers in the energy and related sectors. To a lesser extent, the Market Neutral Master Fund invests in foreign securities. The Market Neutral Master Fund also invests in initial public offerings and secondary security offerings in other sectors but does not expect such investments to make up a significant portion of the Market Neutral Master Fund's portfolio. The Market Neutral Master Fund generally utilizes leverage in the implementation of its investment strategy.

The Opportunistic Master Fund's principal investment objective is to maximize investment returns while minimizing risk through a "long/short" investment strategy across asset classes. The Opportunistic Master Fund invests its assets primarily in a portfolio of equity, debt and commodity interests, including options and private investments, in energy and related sectors. The Opportunistic Master Fund also invests in initial public offerings and secondary security offerings in other sectors but does not expect such investments to make up a significant portion of the Opportunistic Master Fund's portfolio. The Opportunistic Master Fund generally utilizes leverage in the implementation of its investment strategy.

The Opportunistic Master Fund allocates capital across three sub-portfolios, the Opportunistic Portfolio, the Alternative Energy Portfolio and the Market Neutral Portfolio. Although the Investment Adviser generally invests the Opportunistic Master Fund's capital primarily in the Opportunistic Portfolio, it also intends to invest a varying portion of the Opportunistic Master Fund's capital in the Alternative Energy Portfolio and the Market Neutral Portfolio as determined in its discretion. The Market Neutral Portfolio invests *pari passu* with, and employs the investment strategy of, the Market Neutral Master Fund and the Alternative Energy Portfolio invests *pari passu* with, and employs the investment strategy of the Alternative Energy Master Fund.

The Alternative Energy Master Fund's principal investment objective is to maximize investment returns while minimizing risk through a "long/short" investment strategy. The Alternative Energy Master Fund invests its assets primarily in a portfolio of common stocks and options of (U.S.) domestic and international companies focused on subsectors related to alternative, renewable and energy efficient technology, including, without limitation, solar, wind, renewable fuels (including biofuels), battery storage, electric vehicles, smart grid technologies and energy efficient consumer, commercial and industrial products. Alternative Energy Master Fund generally utilizes leverage in the implementation of its investment strategy.

The Ventures Fund's primary purpose is to realize long-term appreciation from venture capital investments in private companies that primarily pursue alternative, renewable or efficient energy technology.

Our idea generation process generally revolves around four pillars: 1) rigorous fundamental analysis; 2) identification of emerging sector themes; and 3) gauging market sentiment and expectations and 4) valuation dislocations.

Once conviction is established, we weigh several factors to determine position sizing and timing, including: the existence and timing of a tangible catalyst, associated commodity risk, trade characterization, subsector tilt (if any), liquidity risk, idiosyncratic risk, and overall portfolio exposures, among others. We aim to manage portfolio risk through real time and daily monitoring of several factors, continuous testing of whether fundamental and thematic theses remain intact, seeking to understand any evolution in market sentiment and seeking to ensure all new information is absorbed objectively.

**B. Material, Significant or Unusual Risks Relating to Investment Strategies.**

The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in our clients. These risk factors include only those risks we believe to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by us. Clients or prospective investors should refer to the relevant client's offering documents for full disclosure of the potential risks of an investment in any particular client, including a full description of each of its respective risk factors. In addition, as the clients' respective strategies may develop and evolve over time, an investment in a particular client may be subject to additional and different risk factors than those set forth below.

**Risk of Loss.** No guarantee or representation is made that our investment programs, including, without limitation, our clients' investment objectives, diversification strategies or risk monitoring goals, will be successful. Investment results may vary substantially over time. *No assurance can be made that profits will be achieved or that substantial or complete losses will not be incurred. Past investment results of our investment professionals are not necessarily indicative of their future performance.*

**General Economic and Market Conditions.** The success of our activities is affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, commodity prices, economic uncertainty, changes in laws (including laws relating to taxation of our clients' investments), tariffs and other trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of the prices and the liquidity of our clients' investments. Volatility or illiquidity could impair our clients' profitability or result in losses. Our clients may maintain substantial trading positions that can be adversely affected by the level of volatility in the financial markets.

**Assumption of Business, Terrorism and Catastrophe Risks.** Clients may be subject to the risk of loss arising from exposure that they may incur, indirectly, due to the occurrence of various events, including, without limitation, hurricanes, health crises such as pandemics and epidemic diseases, earthquakes and other natural disasters, terrorism and other catastrophic events. These risks of loss can be substantial and could have a material adverse effect on the operations of the Investment Adviser, as well as the Funds and the clients' investments therein. For example, any preventative or protective actions that governments may take in respect of such diseases or events may result in periods of business disruption, inability to obtain raw materials, supplies and component parts, and reduced or disrupted operations for client portfolio companies. In addition, under such circumstances the operations, including functions such as trading and valuation, of the Investment Adviser and other service providers could be reduced, delayed, suspended or otherwise disrupted. Further, the occurrence and pendency of such diseases or events could adversely affect the economies and financial markets either in specific countries or worldwide.

**Governmental Interventions.** Extreme volatility and market behavior has in the past led to, and may in the future lead to, extensive governmental interventions in equity, credit and currency markets. Generally, such interventions are intended to reduce volatility and precipitous drops in value. In certain cases, governments have intervened on an "emergency" basis, suddenly and substantially eliminating market participants' ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition, these interventions have typically been unclear in scope and application, resulting in uncertainty. It is impossible to predict when these restrictions will be imposed, what the interim or permanent restrictions will be and/or the effect of such restrictions on the clients' strategies.

**Long/Short.** The success of our long/short investment strategy depends upon our ability to identify and purchase securities that are undervalued and identify and sell short securities that are overvalued. The identification of investment opportunities in the implementation of our long/short investment strategies is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. In the event that the perceived opportunities underlying our clients' positions were to fail to converge toward, or were to diverge further from values expected by us, our clients may incur a loss. In the event of market disruptions, significant losses can be incurred which may force our clients to close out one or more positions. Furthermore, the valuation models used to determine whether a position presents an attractive opportunity consistent with our long/short strategies may become outdated and inaccurate as market conditions change.

**Short Selling.** The success of our short selling investment strategy depends upon our ability to identify and sell short securities that are overvalued. 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 our clients of buying those securities to cover the short position. There can be no assurance that our clients will be able to maintain the ability to borrow securities sold short. In such cases, our clients can be "bought in" (i.e., forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Short strategies can also be implemented synthetically through various instruments and be used with respect to indices or in the over-the-counter market and with respect to futures and other instruments. In some cases of synthetic short sales, there is no floating supply of an underlying instrument with which to cover or close out a short position and our clients may be entirely dependent on the willingness of over-the-counter market makers to quote prices at which the synthetic short position may be unwound. There can be no assurance that such market makers will be willing to make such quotes. Short strategies can also be implemented on a leveraged basis. Lastly, even though we secure a "good borrow" of the security sold short at the time of execution, the lending institution may recall the lent security at any time, thereby forcing our clients to purchase the security at the then-prevailing market price, which may be higher than the price at which such security was originally sold short by our clients.

**Short-Term Market Considerations.** Our trading decisions may be made on the basis of short-term market considerations, and the portfolio turnover rate could result in significant trading related expenses.

**Leverage and Borrowing.** We generally employ financial leverage to buy additional long positions or borrow against our clients' long portfolio in order to purchase additional long positions. There are no restrictions on the amount of such leverage. In the event that we do so, the following risk factors may apply:

*Leverage for Investment Purposes.* The use of leverage will allow our clients to make additional investments, thereby increasing their exposure to assets, such that their total assets may be greater than their capital. However, leverage will also magnify the volatility of changes in the value of our clients' portfolios. The use of leverage by us in a market that moves adversely to our clients' investments could result in substantial losses to our clients, which would be greater than if our clients were not leveraged.

*Borrowing for Cash Management Purposes.* Our clients have the authority to borrow for cash management purposes, such as to satisfy redemption requests. The rates at and terms on which our clients can borrow will affect the operating results of our clients.

*Collateral.* The instruments and borrowings utilized by us to leverage investments may be collateralized by all or a portion of our clients' portfolios. Accordingly, our clients may pledge their securities in order to borrow or otherwise obtain leverage for investment or other purposes. Should the securities pledged to brokers to secure our clients' margin accounts decline in value, our clients could be subject to a "margin call", pursuant to which our clients must either deposit additional funds or securities with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. The banks and dealers that provide financing to our clients can apply essentially discretionary margin, "haircut", financing and collateral valuation policies. Changes by counterparties in any of the foregoing may result in large margin calls, loss of financing and forced liquidations of positions at disadvantageous prices. Lenders that provide other types of asset-based or secured financing to our clients

may have similar rights. There can be no assurance that our clients will be able to secure or maintain adequate financing.

**Costs.** Borrowings will be subject to interest, transaction and other costs, and other types of leverage also involve transaction and other costs. Any such costs may or may not be recovered by the return on our clients' portfolios.

**Diversification and Concentration.** We may select investments that are concentrated in a limited number or types of securities. In addition, our clients' portfolios may become concentrated in securities related to a single or a limited number of issuers, industries, sectors, strategies, countries or geographic regions, in particular, common stock of U.S. issuers in the energy and related sectors or subsectors. This limited diversification may result in the concentration of risk, which, in turn, could expose our clients to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in such securities.

**Lack of Control.** We will invest in equity securities of companies that we do not control, which we may acquire through market transactions or through purchases of securities directly from the issuer or other shareholders. Such securities will be subject to the risk that the issuer may make business, financial or management decisions with which we do not agree or that the majority stakeholders or the management of the issuer may take risks or otherwise act in a manner that does not serve our clients' interests. In addition, we may share control over certain investments with co-investors, which may make it more difficult for us to implement our investment approach or exit the investment when we otherwise would. The occurrence of any of the foregoing could have a material adverse effect on our clients and the investors' investments therein.

**Hedging Transactions.** We may utilize securities for risk management purposes in order to: (i) protect our clients' unrealized gains in the value of their investment portfolios; (ii) facilitate the sale of any securities; (iii) enhance or preserve returns, spreads or gains on any security in our clients' portfolios; (iv) protect against any increase in the price of any securities our clients anticipate purchasing at a later date; or (v) act for any other reason that we deem appropriate. We are not required to hedge any particular risk in connection with a particular transaction or a client's portfolio generally. We may be unable to anticipate the occurrence of a particular risk and, therefore, may be unable to attempt to hedge against it. While we may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for our clients than if they had not engaged in any such hedging transaction. Moreover, our clients' portfolios will always be exposed to certain risks that cannot be hedged.

**Our Discretion; New Strategies, Techniques and Securities.** While we will generally seek to employ the representative investment strategies and techniques discussed herein, we have considerable discretion in the types of securities we may trade and have the right to modify the investment strategies and our techniques without the consent of our clients' investors. While we do not currently expect to invest in securities not discussed in our clients' offering documents, in the event an investment opportunity is presented, more attractive or better expressed through investing in another type of security, we are not prohibited from investing through such other security. New investment strategies and techniques may not be thoroughly tested in the market before being employed and may have operational or theoretical shortcomings which could result in unsuccessful trades and, ultimately, losses to our clients. In addition, any new investment strategy or technique developed by us may be more speculative than earlier investment strategies and techniques and may involve material and as-yet-unanticipated risks that could increase the risk of an investment in our clients.

**Competition; Availability of Investments.** Certain markets in which we may invest are extremely competitive for attractive investment opportunities. As a result, there can be no assurance that we will be able to identify or successfully pursue attractive investment opportunities in such environments.

**Activist Risk.** A client's investment strategy may involve shareholder activism. The success of an activist investment strategy depends upon, among other things: (i) our ability to properly identify portfolio companies whose securities prices can be improved through corporate and/or strategic action; (ii) the client's ability to acquire sufficient securities of such portfolio companies at a sufficiently attractive price; (iii) the client's ability to avoid triggering defensive measures or anti-takeover and regulatory obstacles while aggregating its position; (iv) the

willingness of the management of such portfolio companies and other security holders to respond positively to our proposals; and (v) favorable movements in the market price of any such portfolio company's securities in response to any actions taken by such portfolio company. There can be no assurance that any of the foregoing will occur or that such an investment will increase in value.

Activist investing strategies may prove ineffective for a variety of reasons, including: (i) opposition of the management or investors of the subject company, which may result in litigation and may erode, rather than increase, the value of the subject company; (ii) intervention of a governmental agency; (iii) efforts by the subject company to pursue a "defensive" strategy; (iv) market conditions resulting in material changes in the prices of securities; (v) the presence of corporate governance mechanisms such as staggered boards, poison pills and classes of stock with increased voting rights; and (vi) the necessity for compliance with applicable securities laws. In addition, opponents of a proposed corporate governance change may seek to involve regulatory agencies in investigating the transaction or the client, and such regulatory agencies may independently investigate the participants in a transaction, including the client, as to compliance with securities or other laws. Furthermore, successful execution of an activist investing strategy may depend on the active cooperation of investors and others with an interest in the subject company. Some investors may have interests which diverge significantly from those of the client, and some of those parties may be indifferent to the proposed changes. Moreover, securities that the Investment Manager believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the timeframe we anticipate, even if an activist investing strategy is successfully implemented. Even if the prices for a portfolio company's securities have increased, no guarantee can be made that there will be sufficient liquidity in the markets to allow the client to dispose of all or any of its holdings of such securities therein or to realize any increase in the price of such securities.

#### **Private Market Investments.**

*Risk of Early Stage Companies.* Any investments by our clients in the private equity or debt of companies at an early stage of development involve a high degree of business and financial risk. Early-stage companies with little or no operating history may require substantial additional capital to support expansion or to achieve or maintain a competitive position, may produce substantial variations in operating results from period to period or may operate at a loss. Such companies may face intense competition, including competition from companies with greater financial resources, more extensive development, better marketing and service capabilities and a larger number of qualified management and technical personnel. Such risks may adversely affect the performance of such investments and result in substantial losses.

*Control Issues.* Although we may seek protective provisions, including, possibly, board representation, in connection with certain of private company investments, to the extent we take minority positions in companies in which we invest, we may not be in a position to exercise control over the management of such companies, and, accordingly, may have a limited ability to protect our clients' position in such companies.

*Highly-Leveraged Companies.* Any investments by our clients in private highly-leveraged companies involve a high degree of risk. The use of leverage may increase the exposure of such companies to adverse economic factors such as downturns in the economy or deterioration in the conditions of such companies or their respective industries. In the event any such company cannot generate adequate cash flow to meet debt service, a client may suffer a partial or total loss of capital invested in the company, which, depending on the size of the client's investments, could adversely affect the return on the capital of such client.

**Fundamental Analysis.** Certain trading decisions we make may be based on fundamental analysis. Data on which fundamental analysis relies may be inaccurate or may be generally available to other market participants. To the extent that any such data are inaccurate or that other market participants have developed, based on such data, trading strategies similar to a client's trading strategies, such client may not be able to realize its investment goals. In addition, fundamental market information is subject to interpretation. To the extent that we misinterpret the meaning of certain data, the client may incur losses.

**Analytical Model Risks.** Clients will employ certain strategies which depend upon the reliability, accuracy and analysis of our analytical models. To the extent such models (or the assumptions underlying them) do

not prove to be correct, the client may not perform as anticipated, which could result in substantial losses. All models ultimately depend upon our judgment and the assumptions embedded in them. To the extent that with respect to any investment, the judgment or assumptions are incorrect, a client can suffer losses.

**Energy Market Risks.** Energy markets may be subject to short-term volatility due to a variety of factors, including weather, international political and economic developments, supply and demand for the relevant energy resource, interest rates, currency exchange rates, investment and trading activities in commodities markets, special risks of constructing and operating facilities, breakdowns in the facilities for the production, storage or transport of energy and energy-related products, acts of terrorism, changes in government regulation and sudden changes in fuel prices. Clients face the risk that the earnings, dividends, and stock prices of energy companies will be greatly affected by changes in the prices and supplies of oil, gas and other energy resources. Companies operating in the energy sector may be affected by fluctuations in the prices of energy commodities, including, for example, natural gas, natural gas liquids, crude oil and coal, in the short- and long-term. Fluctuations in energy commodity prices would directly impact companies that own such energy commodities and could indirectly impact companies that engage in transportation, storage, processing, distribution or marketing of such energy commodities. Fluctuations in energy commodity prices can result from changes in general economic conditions or political circumstances (especially of key energy-consuming or producing countries), market conditions, weather patterns, domestic production levels, volume of imports, energy conservation, domestic and foreign governmental regulation, international politics, policies of the Organization of Petroleum Exporting Countries (“OPEC”), relationships among OPEC members and between OPEC and oil-importing nations, energy conservation, the economic growth and stability of the key energy-consuming countries, taxation, tariffs, and the availability and costs of local, intrastate, interstate and international transportation methods. The energy sector as a whole may also be impacted by the perception that the performance of energy sector companies is directly linked to commodity prices.

Other risks include: (i) the risk that technology employed in an energy project will not be effective or efficient; (ii) uncertainty about the availability or efficacy of sales agreements or supply agreements that may be entered into in connection with a project; and (iii) risks of equipment failures, supply interruptions, bankruptcy of key customers or suppliers, labor disputes, tort liabilities in excess of insurance coverage, inability to obtain desirable amounts of insurance at economic rates, acts of God and other catastrophes. The occurrence of events related to the foregoing could have a material adverse effect on a client and its investments. In addition, estimates of hydrocarbon reserves by qualified engineers are often a key factor in valuing certain energy assets. These estimates are subject to wide variances based on changes in commodity prices and certain technical assumptions. Accordingly, it is possible for such reserve estimates to be significantly revised from time to time, creating significant changes in the value of the company owning such reserves. Because a client’s performance depends on a variety of factors affecting energy companies, in addition to factors affecting securities and commodities markets generally, the performance of a client could decline, even if the performance of either the U.S. or foreign securities and commodities markets are positive.

**Midstream Energy Investment Risks.** Investments in companies owning, controlling or investing in midstream energy assets, including oil and gas pipelines and terminals, are subject to a variety of risks not necessarily associated with other types of energy investments. Such risks may include: (i) the risk that the market for the refined products gathered by, transported on and stored in the midstream assets held by a company in which the client invests (the “Midstream Assets”) may decline due to a reduction in downstream customer base or end-user demand; (ii) the risk that the land on which Midstream Assets are located will not be owned by a company in which the client invests or its affiliates, and therefore will be subject to risks associated with obtaining and maintaining necessary land use rights, contracts and permits from unrelated third parties; (iii) the risk that Federal Energy Regulatory Commission (“FERC”) may regulate tariff rates for interstate movements of oil and gas on the pipeline systems held by a company in which a client invests in a manner that adversely affects the profitability of the client’s investments in such company; (iv) the risk of customer bankruptcy and the rejection by customers of long-term contracts in connection with any such bankruptcy; (v) the risk that, even if FERC permits an increase in tariff rates charged on the pipeline systems held by a company in which the client invests, competition from other pipeline systems may prevent such companies from doing so; (vi) the risk that any reduction in the capacity of interconnecting third-party pipelines due to testing, line repair, reduced operating pressures or other causes may result in a reduction of oil and gas volumes transported on pipelines or stored in terminals held by a company in which the client invests, thereby potentially adversely affecting the profitability of the client’s investments in such

company; (vii) the risk that refined oil and gas products and other hydrocarbons transported on and stored in Midstream Assets may be released into the environment, which could cause such companies to be required to make substantial expenditures for responsive action or government-imposed penalties, to be liable to government agencies or private parties for natural resources damages, personal injury or property damages, and to be subjected to significant business interruption; and (viii) the risk that, as a result of their ownership or control of or investment in regulated assets such as pipelines, a company in which the client invests may be subject to unfavorable rulings imposed by regulatory authorities.

**Risk of Investing in Alternative Energy Companies.** Alternative energy refers to the generation of power through environmentally friendly sources that can replace or supplement traditional fossil-fuel sources. It includes power derived principally from solar, wind, renewable fuels (including bio fuels), and also includes the various technologies that support the production, use and storage of these sources, such as battery storage, electric vehicles, smart grid technologies and energy efficient consumer, commercial and industrial products.

The alternative energy industry may be significantly affected by the competition from new and existing market entrants, obsolescence of technology, short product cycles, production spending, varying prices and profits, commodity price volatility, changes in exchange rates, imposition of import controls, depletion of resources, seasonal weather conditions, technological developments and general economic conditions, market sentiment, fluctuations in energy prices and supply and demand of alternative energy fuels, fluctuations in the price of oil and gas, energy conservation efforts, the success of exploration projects, changes in taxation and tax incentives and other government regulations and local, national and international political events. Additionally, adverse weather conditions may cause fluctuations in renewable energy generation and adversely affect the cash flows associated with these assets.

Further, the alternative energy industry may be adversely affected by legislation. For example, if the government reduces environmental regulations or their enforcement, companies that produce products designed to provide a clean environment, and in which a client may invest, are less likely to be profitable. Shares of companies involved in the alternative energy industry may be more volatile than shares of companies operating in more established industries. Certain valuation methods currently used to value companies involved in the alternative energy industries have not been in widespread use for a significant period of time. As a result, the use of these valuation methods may serve to further increase the volatility of certain alternative and transitional energy company share prices. If government subsidies and incentives for alternative energy sources are reduced or eliminated, the demand for alternative energy may decline and cause corresponding declines in the revenues and profits of companies engaged in the alternative energy industry. In addition, changes in U.S., European and other governments' policies towards alternative energy technology also may have an adverse effect on a client's performance. Furthermore, clients may invest in the shares of companies with a limited operating history, some of which may never have operated profitably.

**Risks Related to Investments in Solar Power Companies.** Companies that develop, operate and/or sell solar power products face a variety of risks. Materials and components used to develop solar power products are often procured from a limited number of third-party suppliers. A failure to develop or maintain relationships with these or other suppliers may lead to higher costs and delays, leading to order cancellations and loss of market share. The electricity produced and revenues generated by solar power plants depend heavily on direct sunlight, which can be variable and difficult to predict. Operating results for solar power plants vary significantly from period to period depending on the amount of direct sunlight during the periods in question. Moreover, companies in the solar industry may derive their revenues from new solar power products that are under development and not commercially available. There is a risk that these companies will not be able to recover losses incurred to develop these products and technologies and will not become profitable. In addition, failure by these companies to refine their technology and develop and introduce new solar power products could cause products to become uncompetitive or obsolete, causing sales to decline. While the market for solar power products is emerging and rapidly evolving, future success is uncertain, and widespread adoption or sufficient demand for solar power products could take longer to develop than anticipated, which would also cause a lack of profitability. These companies also face intense competition in a market that is rapidly evolving, and there is a possibility that competitors will attract and retain more customers and achieve more success in cost-cutting and will establish a market position that is more prominent.

**Risks Related to Investments in Wind Power Companies.** Investments in companies involved in the development and construction of wind-powered generating facilities as well as their suppliers are subject to substantial risks, including fluctuations in the price and availability of commodities, manufactured goods, equipment, labor and other items over a multi-year construction period. These risks may result in higher-than-expected costs to complete an asset and place it into service. The electricity produced and revenues generated by wind power plants depend heavily on wind conditions, which are variable and difficult to predict. Operating results for wind power plants vary significantly from period to period depending on the wind conditions during the periods in question. As wind power plants tend to be located in geographies with different profiles, there is some flattening of the seasonal variability associated with each individual wind power plant's generation, and as wind power plants expand the effect of such wind resource variability may be favorably reduced overall, although any such results cannot be guaranteed.

**Risks Associated with Electric Vehicle Companies.** Investments in companies involved in the production of electric vehicles and their suppliers are subject to a variety of risks. Electric vehicle growth is dependent upon the continued adoption by consumers of electric vehicles. If the market for electric vehicles does not develop, or develops more slowly than expected, the business, prospects, financial condition and results of operations of electric vehicle companies will be affected. Further, the availability and speed of charging stations is expected to have a significant effect on adoption rates. The market for electric vehicles is relatively new, rapidly evolving, and could be affected by numerous external factors, such as: government regulations; tax and economic incentives; rates of consumer adoption, which is driven in part by perceptions about electric vehicle features, including battery storage, quality, safety, performance and cost; competition, including from other types of alternative fuel vehicles, plug-in hybrid electric vehicles, and high fuel-economy internal combustion engine vehicles; and volatility in the cost of oil and gasoline.

**Risks Related to Battery Storage.** The applications for energy storage and battery systems include the provision of backup power, grid independence, peak demand reduction, demand response, reducing intermittency of renewable generation and wholesale electric market services. However, project scale battery systems and technologies are at a nascent stage, and any system deployed may not deliver the performance expected. In addition, energy storage products and batteries are rapidly advancing technologies, and future advances in these products may render any such systems and technologies today inefficient or obsolete. In addition, energy storage and battery systems are complex, and defects or a failure of such systems to perform as expected may pose risks related to health, safety, and the environment. Any of such risks, or other risks that may be posed by the need to respond to developments in the market to remain competitive, could materially and adversely affect such companies.

**Risks Related to Investments in Biofuel Companies.** Investment opportunities related to biofuels and bio-based chemical markets may be dependent on the availability and price of feedstocks, including sugar, starch and cellulosic biomass. If the availability of these feedstocks decreases or their price increases, this may reduce success of related investments and have a material adverse effect on our clients' investments. At certain levels, prices may make these products uneconomical to use and produce. The price and availability of feedstocks may be influenced by general economic, market and regulatory factors. These factors include the availability of arable land to supply feedstock, weather conditions, farming decisions, logistics for collection and storage of cellulosic biomass, government policies and subsidies with respect to agriculture and international trade, and global demand and supply. The significance and relative impact of these factors on the price of feedstocks is difficult to predict. Further, concerns associated with biofuels, including land usage, national security interests and food crop usage, continue to receive legislative, industry and public attention. This attention could result in future legislation, regulation and/or administrative action that could adversely affect investments in this industry.

**Risks Related to Investments in the Industrials Sector.** Investments in companies in the industrials sector, such as those involved in construction and manufacturing, industrial machinery and equipment and electrical components and equipment, can be significantly affected by general economic trends, including employment, economic growth, and interest rates; changes in consumer sentiment and spending; the supply of and demand for specific industrial and energy products or services; government regulation and spending; and global competition. For example, adverse changes in the prices of certain commodities and unit volume reductions resulting from an oversupply of materials used in industrials and energy equipment and services industries can adversely affect those

industries. Furthermore, a company in the industrials sector can be subject to liability for environmental damage, depletion of resources and mandated expenditures for safety and pollution control.

**Risks Related to Investments in the Shipping Industry.** Investments in companies in the shipping industry are subject to risks including, without limitation: (i) extensive and changing safety, environmental protection and other international, national and local governmental laws and regulations, compliance with which may require ship modifications and changes in operating procedure; (ii) international sanctions, embargoes, import and export restrictions, nationalizations and wars or terrorist attacks; (iii) acts of piracy on ocean-going vessels; (iv) severe weather and natural disasters, which may cause serious damage to vessels, any cargo and other equipment and loss of life or physical injury; (v) arrests of vessels by maritime claimants in order to enforce liens against the vessel for unsatisfied debts, claims or damages that could cause delays or losses; (vi) labor interruptions or unrest among crews working on the vessels; (vii) delays in delivery of new-build vessels or delivery of new-build vessels with significant defects which could delay or lead to the termination of related charter agreements and also cause cost overruns or cancellation of the new-build contracts; (viii) increased operational and maintenance costs over the life of a shipping vessel; and (ix) drydocking costs for periodic maintenance and repairs that are difficult to predict with certainty and can be substantial.

**Depletion Risk.** Companies engaged in the exploration, development, management or production of energy commodities face the risk that commodity reserves are depleted over time. Such companies seek to increase their reserves through expansion of their current businesses, acquisitions, further development of their existing sources of energy commodities, or exploration of new sources of energy commodities or by entering into long-term contracts for additional reserves; however, there are risks associated with each of these potential strategies. If such companies fail to acquire additional reserves in a cost-effective manner and at a rate at least equal to the rate at which their existing reserves decline, their financial performance may suffer. Additionally, failure to replenish reserves could reduce the amount and affect the tax characterization of the distributions paid by such companies.

**Regulatory Risks Relating to the Energy Sector.** The energy sector is highly regulated. Companies operating in the energy sector are subject to significant regulation of nearly every aspect of their operations by federal, state and local governmental agencies. The businesses in which the clients invest may be adversely affected by non-U.S. and U.S. federal, state and local laws and regulations including regulations governing energy production, distribution and sale, as well as environmental, health and safety, taxation, land access and other regulations. Present, as well as future, statutes and regulations could cause additional expenditures, restrictions and delays that could materially and adversely affect the prospects of a client. Examples of governmental regulations which impact companies operating in the energy sector include, without limitation, regulation of the construction, maintenance and operation of facilities, environmental regulation, worker safety regulation, labor regulation, trade regulation and the regulation of the prices charged for products and services. Compliance with these regulations is enforced by numerous governmental agencies and authorities through administrative, civil and criminal penalties. Stricter laws or regulations or stricter enforcement policies with respect to existing regulations would likely increase the costs of regulatory compliance and could have an adverse effect on the financial performance of companies operating in the energy sector.

**Royalty Streams.** Certain clients may invest in royalty streams in the energy industry. The selling entity of a royalty stream typically negotiates a sale of all or part of its royalty payments for a specified timeframe, usually coinciding with the remaining life of an underlying asset. With respect to royalty streams generated by energy sources such as oil and gas, the client's cash flow will fluctuate with the income realized from the sale of the underlying assets, which have historically experienced unpredictable price movements. As energy prices decline, some projects may become uneconomic and either be delayed or abandoned, as determined by the operators often without regard to the royalty owner. Also, government policies and regulations may change in ways that adversely affect the companies or their products' marketability. There can be no assurance that anticipated royalty payments will be realized.

**Working Interest.** Certain clients may hold a working interest, which is a percentage of ownership in an oil and gas lease granting its owner the right to explore, drill and produce oil and gas from a tract of property. As a result of holding a working interest, the client may be liable for a portion of the ongoing costs associated with exploration, drilling and production. Additional financial risks exist because these ongoing costs may be shared

with third-party working interest owners. If the client pays its share of the costs, but a third-party working interest owner in such operations does not pay its share of the costs, then the client may have to pay the costs originally allocated to a defaulting third-party working interest owner. In this event, the client may receive the defaulting third-party working interest owner's revenues from such operations, if any, under penalty arrangements set forth in an operating agreement, which may, or may not, cover all of the additional costs paid by the client. The client's inability to cover the additional costs may adversely affect the value of the client's investment in such operations. Further, to the extent the client does not elect to participate in any operations, it may be subject to penalty arrangements under the applicable operating agreement.

**Catastrophic Event Risk.** Companies operating in the energy sector are subject to many dangers inherent in the production, exploration, management, transportation, processing and distribution of natural gas, natural gas liquids, crude oil, refined petroleum and petroleum products and other hydrocarbons. These dangers include leaks, spills, fires, explosions, damage to facilities and equipment resulting from natural disasters, inadvertent damage to facilities and equipment and terrorist acts. These dangers give rise to risks of substantial losses as a result of the following: loss or destruction of commodity reserves; damage to or destruction of property, facilities and equipment; pollution and environmental damage; and personal injury or loss of life. Any occurrence of such catastrophic events could bring about a limitation, suspension or discontinuation of the operations of companies operating in the energy sector. Companies operating in the energy sector may not be fully insured against all risks inherent in their business operations and therefore accidents and catastrophic events could adversely affect such companies' financial conditions and ability to pay distributions to shareholders.

**Master Limited Partnership Risk.** An investment in a master limited partnership (an "MLP") unit involves risks that differ from those associated with investments in similar equity securities, such as common stock of a corporation. Holders of MLP units usually have the rights typically afforded to limited partners in a limited partnership, and as such have limited control and voting rights on matters affecting the partnership. In addition, there is the risk that an MLP could be, contrary to its intention, taxed as a corporation, resulting in decreased returns from such MLP. Further, conflicts of interest may exist between common unit holders, subordinated unit holders and the general partner of the MLP, including those arising from incentive distribution payments. In addition, clients expect to gain exposure to MLPs through swap agreements and in such cases the client will generally not have any direct control or voting rights afforded to physical holders of MLP units.

### C. Risks Associated With Particular Types of Securities.

We do not recommend a particular type of investment instrument to our clients, but rather, we recommend and invest in multiple investment instruments. Given the broad discretion we have in managing our client's portfolios, any one or more of the risks listed in the previous section may be incurred by our clients..

However, because it may be useful in understanding our investment program, set forth below is a non-exclusive list of certain risks related to securities and other instruments that may be utilized within our clients' portfolios:

**Equity Securities Generally.** The value of equity securities of public and private, listed and unlisted companies and equity derivatives generally varies with the performance of the issuer and movements in the equity markets. As a result, our clients may suffer losses if we invest in equity instruments of issuers whose performance diverges from our expectations or if equity markets generally move in a single direction and our clients have not hedged against such a general move. Our clients also may be exposed to risks that issuers will not fulfill contractual obligations such as, in the case of convertible securities or private placements, delivering marketable common stock upon conversions of convertible securities and registering restricted securities for public resale.

**Derivative Instruments Generally.** Certain swaps, options and other derivative instruments may be subject to various types of risks including market risk, liquidity risk, credit risk, legal risk and operations risk. Derivatives traded over-the-counter may not have an authoritative source of valuation and the models used to value such derivatives are subject to change. Special risks may apply in the future that cannot be determined at this time with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available. The regulatory and tax environment for derivative instruments in which our clients may participate is

evolving, and changes in the regulation or taxation of such securities may have a material adverse effect on our clients.

*Call and Put Options.* The clients may incur risks associated with the sale and purchase of call options and put options. Under a conventional cash-settled option, the purchaser of the option pays a premium in exchange for the right to receive upon exercise of the option (i) in the case of a call option, the excess, if any, of the reference price or value of the underlier (as determined pursuant to the terms of the option) above the option's strike price or (ii) in the case of a put option, the excess, if any, of the option's strike price above the reference price or value of the underlier (as so determined). Under a conventional physically-settled option structure, the purchaser of a call option has the right to purchase a specified quantity of the underlier at the strike price, and the purchaser of a put option has the right to sell a specified quantity of the underlier at the strike price.

A purchaser of an option may suffer a total loss of premium (plus transaction costs) if that option expires without being exercised. An option's time value (i.e., the component of the option's value that exceeds the in-the-money amount) tends to diminish over time. Even though an option may be in-the-money to the purchaser at various times prior to its expiration date, the purchaser's ability to realize the value of an option depends on when and how the option may be exercised. For example, the terms of the transaction may provide for the option to be exercised automatically if it is in-the-money on the expiration date. Conversely, the terms may require timely delivery of a notice of exercise, and exercise may be subject to other conditions (such as the occurrence or non-occurrence of certain events, such as knock-in, knock-out or other barrier events) and timing requirements, including the "style" of the option.

Uncovered option writing (i.e., selling an option when the seller does not own a like quantity of an offsetting position in the underlier) exposes the seller to potentially significant loss. The potential loss of uncovered call writing is unlimited. The seller of an uncovered call may incur large losses if the reference price or value of the underlier increases above the exercise price by more than the amount of any premiums earned. As with writing uncovered calls, the risk of writing uncovered put options is substantial. The seller of an uncovered put option bears a risk of loss if the reference price or value of the underlier declines below the exercise price by more than the amount of any premiums earned. Such loss could be substantial if there is a significant decline in the value of the underlier.

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

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

*Commodity Futures Contracts.* The value of futures depends upon the price of the instruments, such as commodities, underlying them. The prices of futures are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary, and exchange control programs and policies of governments, as well as national and international political and economic events and policies. In addition, futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during

a single day by regulations referred to as “daily price fluctuation limits” or “daily limits.” Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the client from promptly liquidating unfavorable positions or from entering into desired trades and subject the client to substantial losses. Also, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss. In extraordinary circumstances, a futures exchange or the CFTC could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract. Investments in futures also are subject to the risk of the failure of any of the exchanges on which a client’s positions trade or of its clearinghouses or counterparties.

In the futures markets, margin deposits are typically low relative to the value of the futures contracts purchased or sold. In the forward, currency and certain other derivative markets, margin deposits may be even lower or may not be required at all. Such low margin deposits are indicative of the fact that any commodity futures contract trading typically is accompanied by a high degree of leverage. Low margin deposits mean that a relatively small price movement in a futures contract may result in immediate and substantial losses to the investor. For example, if at the time of purchase, 5% of the price of a futures contract is deposited as margin, a 5% decrease in the price of the futures contract would, if the contract is then closed out, result in a total loss of the margin deposit before any deduction for the brokerage commission. Thus, like other leveraged investments, any purchase or sale of a commodity contract may result in losses in excess of the amount invested.

*Swaps.* Whether our use of swap agreements or swaptions will be successful will depend on our ability to select appropriate transactions for our clients. Swap agreements and options on swap agreements (“swaptions”) can be individually negotiated and structured to include exposure to a variety of different types of investments, asset classes or market factors. Depending on their structure, swap agreements may increase or decrease the holder’s exposure to, for example, equity securities. Swap agreements can take many different forms and are known by a variety of names. Swap transactions may be highly illiquid and may increase or decrease the volatility of our clients’ portfolios. Moreover, our clients bear the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty. Our clients will also bear the risk of loss related to swap agreements, for example, for breaches of such agreements or the failure of our clients to post or maintain required collateral.

*Failure to Enter into Offsetting Trade.* To the extent we invest in a futures contract or a long option, unless an offsetting trade is made, we would be required to take physical delivery of the commodity underlying the future or option. To the extent we fail to enter into such offsetting trade prior to the expiration of the contract, we may suffer a loss since neither us nor our clients has the operational capacity to accept physical delivery of commodities.

**Distressed Obligations.** Any investments made by certain clients in obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems (including companies involved in bankruptcy or other reorganization and liquidation proceedings) are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the risk that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court’s power to disallow, reduce, subordinate, recharacterize debt as equity or disenfranchise particular claims. Such companies’ obligations may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to our clients’ investments in any security. Obligations in which our clients invest may be less than investment grade. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial

difficulties is unusually high. There is no assurance that value of the assets collateralizing our clients' investments will be sufficient or that prospects for a successful reorganization or similar action will become available. In any reorganization or liquidation proceeding relating to a company in which our clients invest, they may lose their entire investment, may be required to accept cash or securities with a value less than their original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from our clients' investments may not compensate our clients' investors adequately for the risks assumed. In addition, under certain circumstances, payments and distributions may be disgorged if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security the value of which will be less than the purchase price to our clients of the security in respect to which such distribution was made.

**Initial Public Offerings.** Investments in initial public offerings (or shortly thereafter) may involve higher risks than investments issued in secondary public offerings or purchases on a secondary market due to a variety of factors, including, without limitation, the limited number of shares available for trading, unseasoned trading, lack of investor knowledge of the issuer and limited operating history of the issuer. In addition, some companies in initial public offerings are involved in relatively new industries or lines of business, which may not be widely understood by investors. Some of these companies may be undercapitalized or regarded as developmental stage companies, without revenues or operating income, or the near-term prospects of achieving them. These factors may contribute to substantial price volatility for such securities and, thus, for the value of our clients' investments.

**Undervalued Securities.** The identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in undervalued securities offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from our clients' investments may not adequately compensate for the business and financial risks assumed.

**Small- and Medium-Capitalized Companies.** Investments in securities of small and medium-capitalized companies involve higher risks in some respects than do investments in securities of larger "blue-chip" companies. For example, prices of securities of small-capitalized and even medium-capitalized companies are often more volatile than prices of securities of large-capitalized companies and may not be based on standard pricing models that are applicable to securities of large-capitalized companies. Furthermore, the risk of bankruptcy or insolvency of many small and medium-capitalized companies (with the attendant losses to investors) may be higher than for larger, "blue-chip" companies. Finally, due to thin trading in the securities of some small-capitalized companies, an investment in those companies may be illiquid.

**Bank Loans.** Certain clients' investment program may include investments in bank loans and participations. These obligations are subject to unique risks, including, without limitation: (i) inadequate perfection of the security interest granted under the loan documents; (ii) the possible invalidation or compromise of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (iii) the validity and seniority of bank claims and guarantees; (iv) so-called lender-liability claims by the issuer of the obligations; (v) environmental liabilities that may arise with respect to collateral securing the obligations; (vi) adverse consequences resulting from participating in such instruments with other institutions with lower credit quality; (vii) long and less certain settlement periods; (viii) collateral posting obligations that may arise in connection with investments in revolving credit facilities or delayed draw term loans, which gives rise to the risk of loss with respect to posted collateral; and (ix) the risk that ownership through assignment is not feasible and the client may be required to hold its interest via a participation, which gives rise to counterparty credit risk and limitations on the ability of the client to directly enforce certain rights (e.g., voting rights). Successful claims by third parties arising from these and other risks will be borne by the client.

As secondary market trading volumes increase, new loans are frequently adopting standardized documentation to facilitate loan trading, which may improve market liquidity. There can be no assurance, however,

that future levels of supply and demand in loan trading will provide an adequate degree of liquidity, that any trading liquidity will exist or that the current level of liquidity will continue. Because of the provision to holders of such loans of confidential information relating to the borrower, the unique and customized nature of the loan agreement, and the private syndication of the loan, loans are not as easily purchased or sold as a publicly traded security, and historically the trading volume in the loan market has been small relative to the high-yield debt market.

**Private Lending.** Certain clients may from time to time make loans (or purchase debt from other non-bank entities) which may present additional risks as compared to other types of debt such as underwritten bonds or bank loans. In general, less creditworthy borrowers may turn to the private lending market, and a private fund or other non-bank lender has more latitude to lend to entities which may not have the creditworthiness to borrow from banks or raise debt in the bond market. Such private debt may lack a readily ascertainable value and have a limited market. As a result, private debt may be difficult and slow to sell. Additionally, private lender underwriting standards, due diligence requirements and loan terms may be less rigorous and stringent and more flexible than is the case for underwritten debt and bank loans. Rights and obligations of the lenders and borrowers of private debt (for example, borrower covenants and the ability to pay interest in kind) may be more expansive or narrower than underwritten debt and bank loans. Consequently, private lending may be a riskier activity than other forms of debt.

**Preferred Stock.** Any investments made by certain clients in preferred stock involve risks related to priority in the event of bankruptcy, insolvency or liquidation of the issuing company and how dividends are declared. Preferred stock ranks junior to debt securities in an issuer's capital structure and, accordingly, is subordinate to all debt in bankruptcy. Preferred stock generally has a preference as to dividends. Such dividends are generally paid in cash (or additional shares of preferred stock) at a defined rate, but unlike interest payments on debt securities, preferred stock dividends are payable only if declared by the issuer's board of directors. Dividends on preferred stock may be cumulative, meaning that, in the event the issuer fails to make one or more dividend payments on the preferred stock, no dividends may be paid on the issuer's common stock until all unpaid preferred stock dividends have been paid. Preferred stock may also be subject to optional or mandatory redemption provisions.

**Convertible Securities.** Any investments made by certain clients in convertible securities may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by our client is called for redemption, our client will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on the client's ability to achieve its investment objective.

**Corporate Debt.** Any investments made by certain clients in bonds, notes and debentures issued by corporations may pay fixed, variable or floating rates of interest, and may include zero-coupon obligations. Corporate debt instruments may be subject to credit ratings downgrades. Other instruments may have the lowest quality ratings or may be unrated. In addition, our clients may be paid interest in kind in connection with its investments in corporate debt and related financial instruments (e.g., the principal owed to the client in connection with a debt investment may be increased by the amount of interest due on such debt investment). Such investments may experience greater market value volatility than debt obligations that provide for regular payments of interest in cash and, in the event of a default, the client may experience substantial losses.

**Illiquid Investments.** Certain clients may invest in illiquid investments, including both public and private investments (such as unlisted securities of U.S. and non-U.S. companies and private companies on a global basis, including companies located in emerging markets), and may acquire assets or securities that we believe either lack a readily assessable market value or should be held until the resolution of a special event or circumstance. Additionally, investments may become illiquid due to market conditions, given the relative size of the investment. The success of these investments is typically dependent not only upon the successful management of such companies, but also upon our ability to engineer effective "exit strategies" in order to realize any enterprise value created or to force the companies to create liquidity opportunities. Such investments may consume a substantial amount of our time. The market prices, if any, for such securities tend to be volatile and may not be readily ascertainable, and a client may not be able to sell them 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/or 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. The client may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. Although these securities may be resold in privately negotiated transactions, restricted or otherwise illiquid securities may sell at a price lower than similar securities that are not subject to restrictions on resale. In addition, the limited liquidity of these investments may subject them to more extensive fluctuations in value and may impair the ability of our clients to exit such investments in times of adversity. Further, companies whose securities are not publicly-traded will generally not be subject to public disclosure and other investor protection requirements applicable to publicly traded securities. Such unlisted and private securities may also be difficult to value and such valuation may require the exercise of substantial discretion by us.

**ITEM 9**  
**DISCIPLINARY INFORMATION**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

## ITEM 10

### OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

A. Broker-Dealer Registration Status.

Neither we nor our management persons are registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

B. Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Adviser Registration Status.

Neither we nor our management persons are registered as, and do not have any application to register as, futures commission merchants, commodity pool operators, commodity trading advisors or associated persons of the foregoing entities.

C. Material Relationships or Arrangements with Industry Participants.

The Investment Adviser serves as the investment manager to several privately placed pooled investment vehicles as described above. Related persons that are under common control with the Investment Adviser serve as the general partner to certain of the Funds.

Mr. Bechtolsheimer has established Carmenna Advisors LLC (“Carmenna”) to serve as a family office adviser to certain accounts beneficially owned by him and members of his family. The Investment Adviser provides certain back-office services to Carmenna pursuant to an Administrative and Back-Office Services Agreement. The Investment Adviser and Carmenna have instituted procedures to seek to address potential conflicts between the firms including, for example, seeking to ensure that Carmenna (i) does not purchase (and can only dispose of under certain circumstances) any securities on behalf of its clients that are traded by the Funds and (ii) does not trade in any securities that are on the Investment Adviser’s restricted securities trading list. Further, the Investment Adviser is not permitted to trade in any securities that are included on Carmenna’s restricted securities trading list because Carmenna or its employees may have received material, non-public information about the relevant issuer. In addition, certain employees of Carmenna are treated as access persons and subject to personal trading restrictions under the Investment Adviser’s Code of Ethics. While Carmenna is generally managed on a day-to-day basis by its employees, Mr. Bechtolsheimer retains oversight and control of Carmenna, and spends a portion of his business time in such role.

Mr. Bechtolsheimer is a member of the board of directors and a minority shareholder of Private Client Bank AG (the “Private Client Bank”), a Swiss investment office bank. However, in such capacity, Mr. Bechtolsheimer does not have direct influence or control over investment decisions made by the Private Client Bank.

D. Material Conflicts of Interest Relating to Other Investment Advisers.

We do not recommend or select other investment advisers for our clients.

## ITEM 11

### CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

#### A. Code of Ethics.

We strive to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. In seeking to meet these standards, we have adopted a Code of Ethics (the “Code”). The Code incorporates the following general principles that all employees are expected to uphold:

- all employees will act with competence, dignity, integrity, and in an ethical manner, when dealing with clients, the public, prospects, third-party service providers and fellow employees;
- all personal securities transactions must be conducted in a manner consistent with the Code;
- conflicts of interest that involve us and/or our employees on one hand, and Funds and/or investors on the other hand, will generally be fully disclosed or resolved in a way that favors the interests of Funds and investors over the interests of us and our employees;
- employees must promptly report any improper or suspicious activities, including any suspected violations of the *Code of Ethics* or any law, rule or regulation applicable to our business, to the Chief Compliance Officer; and
- employees must use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, trading, promoting our services, and engaging in other professional activities.

Clients may review a copy of the Code when visiting the Investment Adviser’s office listed on the first page of this document.

#### B. Securities in Which We or a Related Person Have a Material Financial Interest.

##### 1. *Cross-Trades*

We do not intend to cause our clients to engage in transactions between themselves.

##### 2. *Principal Transactions*

To the extent that our clients’ transactions may be viewed as principal transactions, as such term is used under the Investment Advisers Act of 1940 (the “Advisers Act”), the Fund General Partners and the Investment Adviser will comply with the requirements of Section 206(3) of the Advisers Act. In connection with principal transactions, related-party transactions and other transactions and matters involving potential conflicts of interest, each of the Market Neutral General Partner, the Alternative Energy General Partner, the Ventures General Partner and the Opportunistic General Partner is authorized to select one or more persons who are not affiliated with the Investment Adviser (such as an independent director) to serve on a committee (the “Advisory Committee”), the purpose of which is to consider and, on behalf of the applicable client’s investors and, if desired by such Fund General Partner, the investors in any other feeder fund in the applicable master fund, approve or disapprove, to the extent required by applicable law or deemed advisable by such Fund General Partner, such transactions and conflicts of interest. The members of the Board of Directors serve as members of the Advisory Committee; *provided* that when the Advisory Committee is asked to review and approve principal transactions, related-party transactions or other transactions and matters involving potential conflicts of interest, any member of the Board of Directors that is affiliated with the Investment Adviser will be required to recuse himself or herself from voting on such matters. The

Advisory Committee may approve such transactions prior to or contemporaneous with, or ratify such transactions subsequent to, their consummation. In no event will any such transaction be entered into unless it complies with applicable law.

C. Investing in Securities that the Investment Adviser or a Related Person Recommends to Clients.

The Code places restrictions on personal trades by employees, including that they disclose their personal securities holdings and transactions to us on a periodic basis, and requires that employees pre-clear certain types of personal securities transactions. Personal securities transactions are subject to a minimum holding period. Generally, and subject to certain exceptions, our employees may not engage in personal securities trading in securities that are part of a pre-defined universe of securities in which the clients invest or are likely to invest and may only dispose of such securities held in their respective personal trading accounts. Any such disposition of securities must be pre-cleared.

We, our affiliates and our employees may give advice or take action for our own accounts that may differ from, conflict with or be adverse to advice given or action taken for clients. These activities may adversely affect the prices and availability of other securities or instruments held by or potentially considered for one or more clients. Potential conflicts also may arise due to the fact we and our personnel may have investments in some clients but not in others or may have different levels of investments in the various clients.

We have established policies and procedures to monitor and resolve conflicts with respect to investment opportunities in a manner we deem fair and equitable, including the restrictions placed on personal trading in the Code, as described above, and regular monitoring of employee transactions for actual or perceived conflicts of interest, including those conflicts that may arise as a result of personal trades in the same or similar securities made at or about the same time as client trades. Further, as described in Item 10C. above, each of the Investment Adviser and Carmenna have established policies and procedures which seek to minimize the investment by Carmenna and its employees in securities that the Investment Adviser recommends to its clients.

D. Conflicts of Interest Created by Contemporaneous Trading.

We manage investments on behalf of a number of clients. Certain clients have investment programs that are similar or overlap and may, therefore, participate with each other in investments. It is our policy to allocate investment opportunities among all clients fairly, to the extent practicable and in accordance with each client's applicable investment strategies, over a period of time. We have no obligation to purchase or sell a security for, enter into a transaction on behalf of, or provide an investment opportunity to any client solely because we purchase or sell the same security for, enter into a transaction on behalf of, or provide an opportunity to any other client if, in our reasonable opinion, such security, transaction or investment opportunity does not appear to be suitable, practical or desirable for the client.

The Opportunistic Master Fund generally invests the portion of its portfolio which consists of the Market Neutral Portfolio *pari passu* with the Market Neutral Master Fund and the strategy it employs and the portion of its portfolio which consists of the Alternative Energy Portfolio *pari passu* with the Alternative Energy Fund and the strategy it employs. Additionally, many investment opportunities that are suitable for the Opportunistic Portfolio and the Alternative Energy Portfolio are also suitable for the Market Neutral Portfolio and each of the Opportunistic Portfolio, the Alternative Energy Portfolio and the Market Neutral Portfolio holds and may in the future hold, investments in the same securities at the same time. However, generally, the Market Neutral Master Fund, the Opportunistic Master Fund and the Alternative Energy Master Fund invest independently of one another, except for the portion of the Opportunistic Master Fund's portfolio which consists of the Market Neutral Portfolio and the Alternative Energy Portfolio.

Except as described in the paragraph above, investment opportunities will generally be allocated among those clients for which participation in the respective opportunity is considered appropriate, taking into account, among other considerations: (i) the amount of capital available for investment overall or in a strategy, market segment or similar category relevant to the strategy; (ii) the target portfolio construction; (iii) whether the risk-return profile of the proposed investment is consistent with a client's objectives; (iv) the potential for the proposed

investment to create an imbalance in a client or strategy; (v) the liquidity requirements of a client; (vi) potentially adverse tax consequences; (vii) regulatory or contractual restrictions that would or could limit a client's ability to participate in a proposed investment; (viii) the need to re-size risk in a client or strategy; (ix) redemption or withdrawal requests from a client and anticipated future contributions into a client; and (x) proximity of a client to the end of its specified term/commitment period.

Investments in initial public offerings that are appropriate for more than one client or strategy taking into account the factors described above will generally be allocated among such clients or strategies *pro rata* based on the net asset value of each client or strategy that can be allocated to such investments. Investments in secondary security offerings that are appropriate for more than one client or strategy taking into account the factors described above will generally be allocated among such clients or strategies *pro rata* based on the relative size of the indications of participation by the portfolio manager of the relevant portfolios attributable to each client or strategy.

The Opportunistic Master Fund's investment in the Ventures Fund presents a conflict of interest. By selecting the Ventures Fund to invest in, the Investment Adviser creates an opportunity for it to deploy capital in its Ventures Fund investments and also creates an opportunity for the Investment Adviser to earn fees at both fund levels. The Investment Adviser addresses these conflicts by (1) permitting investors in the Opportunistic Domestic Fund and Opportunistic Offshore Fund to determine whether to invest their capital (through the Opportunistic Master Fund) in the Ventures Fund and (2) not charging the Opportunistic Master Fund fees at the Ventures Fund level, as set forth in Item 5 above.

When we and/or our affiliates deem it appropriate and not inconsistent with the interests of the clients, we may provide investors, other actual or prospective clients, strategic investors and/or any other person the opportunity to co-invest with the clients. We reserve the right to allocate or decline to allocate such investment opportunities among any such persons in any amounts or manner as we or our affiliates may determine and on such terms as we or our affiliates may determine including, without limitation, offering certain investors priority rights to such investment opportunities. We may receive management fees and/or performance-based compensation in connection with co-investments.

## **ITEM 12**

### **BROKERAGE PRACTICES**

#### **A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions.**

As noted previously, we have full discretionary authority to manage our clients' portfolios, including authority to make decisions with respect to which securities are bought and sold, the amount and price of those securities, the brokers or dealers to be used for a particular transaction, and commissions or markups and markdowns paid. Our authority is limited by our own internal policies and procedures and each client's investment guidelines.

Portfolio transactions for each client are allocated to brokers and dealers on the basis of numerous factors and not necessarily lowest pricing. Brokers and dealers may provide other services that are beneficial to us and/or certain clients, but not beneficial to all clients. Subject to best execution, in selecting brokers and dealers (including prime brokers) to execute transactions, provide financing and securities on loan, hold cash and short balances and provide other services, we may consider, among other things, the following:

- the ability of the brokers and dealers to effect the transaction;
- the brokers' or dealers' facilities, reliability and financial responsibility; and
- the provision by the brokers of capital introduction, talent introduction, marketing assistance, consulting with respect to technology, operations and equipment, commitment of capital, access to company management and access to deal flow.

Accordingly, the commission rates (or dealer markups and markdowns) charged to our clients by brokers or dealers in the foregoing circumstances may be higher than those charged by other brokers or dealers who may not offer such services. We need not solicit competitive bids and do not have an obligation to seek the lowest available commission cost or spread. Generally, neither we nor our clients separately compensate any broker or dealer for any of these other services.

If we decide, based on the factors set forth above, to execute over-the-counter transactions on an agency basis through Alternative Trading Systems ("ATSs") we will also consider the following factors when choosing to use one ATS over another:

- the ease of use;
- the flexibility of the ATS compared to other ATSs; and
- the level of care and attention that will be given to smaller orders.

We maintain policies and procedures to review the quality of executions, including periodic reviews by our investment professionals.

#### **1. *Research and Other Soft Dollar Benefits.***

From time to time, we may pay a broker-dealer commissions (or markups or markdowns with respect to certain types of riskless principal transaction) for effecting client transactions in excess of that which another broker-dealer might have charged for effecting the transaction. The excess commission can be paid to that broker-dealer or other broker-dealers or research service providers in recognition of the value of the brokerage and research services provided. We will effect such transactions, and receive such brokerage and research services, only to the extent that they fall within the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934, as amended, and subject to prevailing guidance provided by the SEC regarding Section 28(e). We believe it is important to our

investment decision-making processes to have access to independent research and we receive both proprietary research from broker-dealers as well as research created or developed by third parties in this manner.

Also, consistent with Section 28(e), research products or services obtained with “soft dollars” generated by one or more clients may be used by us to service one or more other clients, including clients that may not have paid for the soft dollar benefits. We do not seek to allocate soft dollar benefits to client accounts in proportion to the soft dollar credits the client accounts generate. Additionally, we will, from time to time, make research products or services obtained with “soft dollars” generated by the clients available to our affiliates. Where a product or service obtained with soft dollars provides both research and non-research assistance to us (i.e., a “mixed use” item), we will make a good faith allocation of the cost which may be paid for with soft dollars. In making good faith allocations of costs between administrative benefits and research and brokerage services, a conflict of interest may exist by reason of our allocation of the costs of such benefits and services between those that primarily benefit us and those that primarily benefit our clients.

When we use client brokerage commissions (or markups or markdowns) to obtain research or other products or services, we receive a benefit because we do not have to produce or pay for such products or services. While we are obligated to seek best execution for each client, the fact that we can obtain or receive such products or services may create an incentive for us to select or recommend a particular broker-dealer more favorable to our interests, to the exclusion of another broker-dealer that offers business terms which are more favorable to one or more clients.

At least annually, we will consider the amount and nature of research and research services provided by broker-dealers, as well as the extent to which such services are relied upon, and will attempt to allocate a portion of the brokerage business of our clients on the basis of that consideration. Broker-dealers will sometimes suggest a level of business they would like to receive in return for the various products and services they provide. Actual brokerage business received by any broker-dealer may be less than the suggested allocation, but can (and often does) exceed the suggested level, because total brokerage is allocated on the basis of all of the considerations described above. In no case will we make binding commitments as to the level of brokerage commissions we will allocate to a broker-dealer, nor will we commit to pay cash if any informal targets are not met. A broker-dealer will not be excluded from receiving business because it has not been identified as providing research products or services.

## **2. *Brokerage for Client Referrals.***

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

## **3. *Directed Brokerage.***

We do not recommend, request or require that a client direct us to execute transactions through a specified broker-dealer.

### **B. Order Aggregation.**

If we determine that the purchase or sale of a security is appropriate with regard to multiple clients, we may, but are not obligated to, purchase or sell such a security on behalf of such clients with an aggregated order, for the purpose of reducing transaction costs, to the extent permitted by applicable law. When an aggregated order is filled through multiple trades at different prices on the same day, each participating client will receive the average price, with transaction costs generally allocated *pro rata* based on the size of each client's participation in the order (or allocation in the event of a partial fill) as determined by us. In the event of a partial fill, allocations may be modified on a basis that we deem to be appropriate, including, for example, in order to avoid odd lots or *de minimis* allocations. When orders are not aggregated, trades generally will be processed in the order that they are placed with the broker or counterparty selected by us. As a result, certain trades in the same security for one client (including a client in which we and our personnel may have a direct or indirect interest) may receive more or less

favorable prices or terms than another client, and orders placed later may not be filled entirely or at all, based upon the prevailing market prices at the time of the order or trade. In addition, some opportunities for reduced transaction costs and economies of scale may not be achieved.

From time to time, our order generation process may also result in concurrent buy and sell orders in the same security for different clients. In these instances, our market participation may tend to decrease the prices clients receive in a sale, and increase the prices clients pay in a purchase. We aim to treat clients fairly in sequencing concurrent buys and sells in the same security and generally will not enter an order in the opposite direction of an existing order until the initial order has been completed.

## **ITEM 13**

### **REVIEW OF ACCOUNTS**

A. Frequency and Nature of Review of Client Accounts or Financial Plans.

We perform various daily, weekly, monthly, quarterly and periodic reviews of each client's portfolio. Such reviews are conducted by our personnel.

B. Factors Prompting Review of Client Accounts Other than a Periodic Review.

A review of a client account may be triggered by any unusual activity or special circumstances.

C. Content and Frequency of Account Reports to Clients.

Investors in our clients receive a monthly notice from us documenting the performance of the applicable client portfolio, although we may provide certain investors with information on a more frequent and detailed basis if agreed to by us. In addition, we issue investors tax reports and audited financial statements concerning their respective clients within 120 days of the end of each client's fiscal year. While all investors generally receive similar information, to the extent an investor receives additional information (that other investors have not received), which is in addition to information provided in a client's regular reports to investors, such information may provide such investor with greater insight into the client's activities. This may enhance such investor's ability to make investment decisions with respect to the client and possibly affect such investor's decision to request a redemption from a client.

**ITEM 14**  
**CLIENT REFERRALS AND OTHER COMPENSATION**

A. Economic Benefits for Providing Services to Non-Clients.

We do not receive economic benefits from non-clients for providing investment advice and other advisory services to our clients.

B. Compensation to Non-Supervised Persons for Client Referrals.

Neither we nor any of our related persons directly or indirectly compensates any person who is not a supervised person, including placement agents, for client referrals.

## **ITEM 15**

### **CUSTODY**

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

We are subject to Rule 206(4)-2 under the Advisers Act (the "Custody Rule"). However, we are not required to comply (or will be deemed to have complied) with certain requirements of the Custody Rule with respect to each Fund because we comply with the provisions of the so-called "Pooled Vehicle Annual Audit Exception", which, among other things, requires that each Fund be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that each Fund distribute its audited financial statements to all investors within 120 days of the end of its fiscal year.

**ITEM 16**  
**INVESTMENT DISCRETION**

We serve as the investment manager with discretionary trading authority to each client.

Our investment decisions and advice with respect to each client are subject to each client's investment objectives and guidelines, as set forth in its offering documents.

We have entered into an investment management agreement, or similar agreement, with each client, pursuant to which we have been granted discretionary trading authority.

## **ITEM 17**

### **VOTING CLIENT SECURITIES**

#### **A. Policies and Procedures Relating to Voting Client Securities.**

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

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

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

In limited circumstances, we may refrain from voting Proxies where we believe that voting would be inappropriate, taking into consideration the cost of voting the Proxies and the anticipated benefit to our clients. Generally, clients may not direct our vote in a particular solicitation.

Conflicts of interest may arise between the interests of our clients on the one hand and us or our affiliates on the other hand. If we determine that we may have, or be perceived to have, a conflict of interest when voting Proxies, we will vote in accordance with our Proxy voting policies and procedures. Clients may obtain a copy of our Proxy voting policies and our Proxy voting record upon request.

**ITEM 18**  
**FINANCIAL INFORMATION**

We are not required to include a balance sheet for our most recent fiscal year, are not aware of any financial condition reasonably likely to impair our ability to meet contractual commitments to clients, and have not been the subject of a bankruptcy petition at any time during the past ten years.