



Part 2A of Form ADV: Axar Capital Management LP - *Brochure*

Item 1 - Cover Page

Amended March 4, 2021

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This Brochure provides information about the qualifications and business practices of Axar Capital Management LP (the “Adviser” or the “firm”). If you have any questions about the contents of this Brochure, please contact us at (212) 356-6130. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Axar Capital Management LP has filed an SEC registration application as a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an investment adviser provide you with information about which you determine to hire or retain an investment adviser.

Additional information about Axar Capital Management LP also is available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 - Material Changes

Axar Capital Management LP (the “Adviser”) is providing this annual update to the “Brochure” since its last update dated September 2, 2020. A summary of changes since the last update is as follows:

- Item 1 reflects an update to the Adviser’s principal place of business
- Item 4 reflects an update to show the AUM as of December 31st, 2020
- Item 5 reflects an update to explain the treatment of advisory fees for the new sub-advisory arrangement
- Item 7 reflects an update to show the Adviser engaged in a new sub-advisory relationship
- Item 10 reflects an update to the risk disclosures

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Item 4 - Advisory Business

- A. The Adviser is a Delaware limited partnership and has its principal place of business in New York, New York. The Adviser provides discretionary investment advisory services to various open-end and close-end pooled investment vehicles operating as private funds (each a “Fund” and, collectively, the “Funds”) and separately managed accounts. (the “Managed Accounts” and, together with the Funds, the “Clients”). Interests in the Funds are offered to certain sophisticated, qualified investors, including: high net worth individuals, retirement plans, trusts, partnerships, corporations, or other businesses.¹

The Adviser was formed in 2015 by Axar GP LLC and the Adviser’s portfolio manager, Andrew M. Axelrod (the “Principal”).

- B. The Adviser’s primary investment objective is to generate positive risk-adjusted returns. The Adviser employs an opportunistic, value-oriented investment strategy supported by an analytical, fundamental research approach to identifying and assessing intrinsic value.
- C. While each of its Clients will follow the general strategy stated above, the Adviser may tailor the specific advisory services with respect to each Client based on the particular investment objectives and strategies described in the applicable Client’s (i) confidential offering memorandum or separate account agreement (as applicable) and (ii) governing documents, including but not limited to an investment management agreement (referred to collectively as “Governing Documents”). Managed account clients may impose restrictions on investing in certain securities or types of securities.

All discussion of the Clients in this Brochure, including but not limited to their investments, the strategies used in managing the Clients, and conflicts of interest faced by the Adviser in connection with the management of the Clients are qualified in their entirety by reference to each Client’s respective Governing Documents.

- D. The Adviser does not participate in wrap fee programs.
- E. As of December 31, 2020, the Adviser manages approximately \$959,205,204 in discretionary assets under management and \$0 in non-discretionary regulatory assets under management.

¹ As a registered investment adviser, the Adviser owes a fiduciary duty to all of its clients. In 2006, the decision by the Court of Appeals for the D.C. Circuit in *Goldstein v. SEC*, 451 F.3d 873 (D.C. Cir. June 23, 2006), with respect to private funds, clarified that the “client” of an investment adviser to a private fund is the fund itself and not an investor in the fund.

Item 5 - Fees and Compensation

- A. Below is a discussion of how the Adviser is generally compensated in connection with providing advisory services to its Clients. However, the Adviser may enter into different fee arrangements on a Client by Client basis. A potential investor in a Fund or any potential Client should read and review any and all Governing Documents in their entirety before making any investment decisions.

Management Fees. For its services to its open-end Funds, the Adviser is entitled to a management fee (the “Management Fee”) which is paid by Fund investors and may vary depending on the class of interests held by the applicable Fund investors (at an annual rate ranging from 1% to 2%). The Management Fee is paid in advance on a quarterly basis and, in the case of open-end Funds, is directly deducted from each investor’s capital account. The annual Management Fee may be negotiated by Fund investors. Close-end Funds may adopt different Management Fee structures.

With respect to the services rendered to Managed Accounts, the Adviser generally receives a quarterly management fee which is based upon a percentage of the applicable Managed Account’s net asset value as agreed upon between the Adviser and the Managed Account holder.

Performance-Based Fees (Incentive Allocation and Carried Interest). We receive performance-based fees from certain clients. As of each December 31 of each year, open-end funds managed by the Adviser are subject to an “incentive allocation” which is generally equal to 20% of any New Appreciation (as defined below) then attributable to each investor’s capital account corresponding to such investor’s interests or shares (the “Performance Allocation”) will be made. The Performance Allocation will be allocated to an affiliate of the Adviser. With respect to close-end funds, the Performance-Based Fee is typically paid upon liquidation of the portfolio assets.

The “New Appreciation” is equal to the amount by which the Net Asset Value of fund interests (calculated after deduction of Management Fees and for all accrued expenses, but prior to the Incentive Allocation being calculated) exceeds the High Water Mark attributable to such interests.

The “High Water Mark” applicable to each interest is the highest aggregate Net Asset Value of such interest as of any preceding December 31, after reduction for the Incentive Allocation then made.

With respect to the Managed Accounts, the Adviser is generally entitled to receive performance-based allocation at the end of each applicable performance period (as defined in the investment management agreement between the Adviser and the Managed Account holder).

Clients should note that similar advisory services may (or may not) be available from other registered investment advisers for similar or lower fees.

Fund Organizational Expenses. Funds also bear the expenses of the organization of the Funds. The organizational and initial offering costs of the Funds include legal, accounting, printing,

marketing and comparable expenses (not including any placement fees). The Funds amortize such organizational expenses for Net Asset Value purposes in 60 equal monthly installments. The organizational expenses borne by the Funds are described in more detail in the Funds' Offering Documents.

Operating Expenses. Fund investors pay operating expenses including: legal, auditing, accounting and other professional expenses (for example, accounting and tax advisory fees, tax compliance and filing-related costs (including FATCA and AEOI compliance), legal fees charged in negotiating, prime brokerage, ISDA Master Agreements and related custody and segregation agreements, repurchase agreements or other trading or financing agreements); administration expenses and fees including, but not limited to, the provision of any investment/management-related reporting and certain mid-office services; research expenses (including research-related and due diligence travel); investment expenses such as commissions, ticket charges, prime brokerage fees, give up fees, borrow costs, interest on margin accounts and other indebtedness and similar charges, costs associated with closing bank debt and trade claim trades (including legal fees as well as costs associated with delayed settlement risk), as well as other expenses incurred in connection with trading the Fund's account; costs and expenses associated with engaging expert networks and consultants; order management systems; custodial fees; bank and wire service and transaction fees; regulatory reporting costs (including, for example, Schedule 13D, 13F, 13G and Form PF filing costs and expenses, as well as EDGAR formatting and filing costs); compliance costs, including, without limitation, costs of compliance programs, third-party compliance consultants, actual and "mock" examinations, regulatory and governmental inquiries, subpoenas and proceedings (in each case, whether involving the Funds or the Adviser); and other expenses and legal fees related to the purchase, sale and maintenance of Fund assets as determined by the Adviser (including, but not limited to, withholding, income and other taxes). The Funds' operating expenses also include fund director fees and other legal structuring costs including costs associated with issuing interests or shares as well as revising the Funds' offering and operative documents. Also, the Funds' operating expenses include insurance premiums (including errors and omissions insurance for the principals, members, directors, officers and employees of the Adviser and its affiliates, and the Funds' and any master funds' directors).

Furthermore, and to the extent operating expenses or other expenses apply to more than one Fund or Client such as the Managed Accounts, the Adviser has implemented an expense allocation policy in order to allocate such shared expenses fairly among the applicable Clients.

Miscellaneous. The Adviser may grant waivers of the Management Fees and Performance Allocations to principals, affiliates, and employees of the Adviser.

The advisory fees collected from the Cornerstone sub advisory business will be rebated to the Client accounts.

The Adviser may agree with certain investors to a variation of the terms set forth in the Funds' Offering Documents.

- B. Management Fees and Performance-Based Fees from the Funds are paid/allocated as indicated in Item 5.A. above.
- C. Certain Clients will incur brokerage and other transaction costs. Item 12 of this Brochure discusses how the Adviser selects brokers and determines the reasonableness of their compensation. The direct expenses borne by each Client are described in more full detail in

each Client's Offering Documents.

- D. The Management Fee with respect to the Funds is paid in advance on a quarterly basis, as indicated in Item 1.A. The Management Fee with respect to a Managed Account may be paid in advance or arrears.
- E. Other than as described above, neither the Adviser nor any of its supervised persons receives any compensation from the sale of securities or other investment products.

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

As stated in Item 5 above, the Adviser or its affiliates receive performance-based fees or allocations from certain Clients. These payments are subject to Section 205(a)(1) of the Investment Advisers Act of 1940, as amended (the “Advisers Act”), in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3, which requires that performance-based fees only be charged to “qualified clients” (as such term is defined in Rule 205-3).

Performance-based fees, in general, may create an incentive for an adviser or its supervised persons to make investments that are riskier and more speculative than would be the case in the absence of a performance-based fee. Such fee arrangements may also create an incentive to favor higher fee paying clients over other clients in the allocation of investment opportunities. To address these conflicts of interest with respect to any future clients, the Adviser implements policies and procedures to ensure that all clients receive equitable and fair treatment with respect to the allocation of investment opportunities.

Item 7 - Types of Clients

As mentioned in Item 4, the Adviser provides investment advisory services to private funds for sophisticated, qualified investors, including: high net worth individuals, retirement plans, trusts, partnerships, corporations, or other businesses. The Adviser also provides advisory services to separately managed accounts for institutional investors. In addition, the Adviser provides sub-advisory services to Cornerstone Trust Management Services LLC (“Cornerstone”) which is a subsidiary of a portfolio company of the Adviser.

The typical minimum initial investment in a Fund or Managed Account varies by product and is either \$5,000,000 or \$20,000,000, although the Adviser may accept investments in a lesser amount at their sole discretion.

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

A. Investment Objective and Philosophy

The investment objective of the Adviser is to generate positive risk-adjusted returns.

The Adviser employs an opportunistic, value-oriented investment strategy supported by an analytical, fundamental research approach to identifying and assessing intrinsic value. The Adviser intends that the Clients' investment strategy will not regularly use leverage or borrowed money, although the Adviser will employ leverage and is not restricted from doing so. Further, there will be leverage embedded in several of the financial instruments the Funds hold.

The Adviser invests opportunistically in various securities and financial instruments across diverse sectors and asset classes, focusing on event-driven and special situations investments across the capital structure. While the Adviser trades primarily in the United States, Canada and other G10 countries, it may invest in certain other countries, including emerging markets, from time to time. The Adviser may invest in distressed or stressed bank debt and bonds, mezzanine debt, notes, asset-backed securities, lease obligations, listed and over-the-counter ("OTC") equities, post re-organization equities, trade claims, structured products, municipal bonds, convertible bonds, bank regulatory capital, pooled vehicles, liquidating vehicles or trusts, preferred stocks, warrants, derivatives, credit default swaps and other securities and investment instruments selected by the Adviser. Given the opportunistic nature of the investment strategy, the composition of the portfolio will shift over time, depending on market conditions.

The Adviser searches for changing market conditions, negative sentiment, stressed or distressed companies and inefficiencies that may create opportunities for value-oriented investing. The Adviser seeks situations where prices have become distorted for reasons unrelated to intrinsic value. Asset prices deviate from intrinsic value for a host of reasons including forced selling, uncertainty surrounding a change in the business or industry, bankruptcy or balance sheet stress and other misunderstood conditions. The Adviser seeks to maintain an extensive pipeline of actionable credit and equity ideas, allowing for patience and investment only when a significant discount is available. The Adviser believes its competitive advantage lies in a uniquely broad sourcing edge, a credit-oriented mindset and its personnel's experience curve.

The Adviser attempts to invest at prices that reflect a significant discount to intrinsic value. The Adviser performs bottoms-up, fundamental analysis on every investment, supported by a comprehensive due diligence process. The Adviser does not adhere to one particular formula to determine value, but uses a range of valuation methods including, but not limited to, cash flow and earnings power analysis as well as balance sheet-based valuations. By considering value from multiple perspectives and consistently applying conservative assumptions when forecasting, the Adviser intends to identify investments that are likely to increase in value in absolute terms and where some change, event or other catalyst will cause the market's valuation mispricing to be corrected.

B. Risk Management

The Adviser analyzes risk at various levels, and the first level is always with an individual investment. The Adviser considers the probability and magnitude of a permanent loss of capital for each investment. The Adviser believes that deep, fundamental research applied to each position is the most reliable form of risk mitigation. The Adviser rigorously tests assumptions underlying each investment to understand the sensitivities in the Funds' portfolios. The Adviser will only pursue investments that it believes can tolerate a variety of stressed conditions.

The Adviser also considers risk at the portfolio level. The Adviser may use hedges when it perceives a high correlation to a particular risk across numerous investments such as macroeconomic factors, monetary policy, inflation, commodity prices or interest rates. The Adviser looks for mispriced instruments where realization of value is not dependent on the improvement in financial markets. This practice is intended to minimize the correlation between the Funds' various assets and that of the performance of the general financial markets.

* * * *

There are no material restrictions on the strategies, leverage, markets or instruments that may be incorporated into the Adviser's portfolio or the percentage of the assets that may be committed to any particular strategy type, market or instrument. By investing, investors are relying on the discretionary market judgment of the Adviser's personnel, without any meaningful diversification, leverage, type of trading or strategy concentration limitations. The Adviser may change the trading parameters applicable to the portfolio at any time.

There can be no assurance that the Adviser will successfully implement its risk management program or that the Clients will not incur substantial or total losses.

PROSPECTIVE INVESTORS ARE URGED TO CONSULT WITH THEIR OWN FINANCIAL, LEGAL AND TAX ADVISERS REGARDING THEIR INDIVIDUAL CIRCUMSTANCES AND THE SUITABILITY OF AN INVESTMENT. INVESTORS COULD LOSE THEIR ENTIRE INVESTMENT.

THE ADVISER'S INVESTMENT STRATEGY INVOLVES A HIGH DEGREE OF BUSINESS AND FINANCIAL RISK THAT CAN RESULT IN SUBSTANTIAL LOSSES AND IS SUITABLE ONLY FOR INVESTORS PREPARED TO BEAR SUCH RISK. THE RISKS FACTORS BELOW ARE NOT INTENDED TO BE EXHAUSTIVE. PROSPECTIVE INVESTORS SHOULD CAREFULLY REVIEW THE RISKS DESCRIBED IN THE CLIENTS' OFFERING DOCUMENTS:

No Market for Shares; Unpredictable Distributions

No secondary market exists for Shares and none is likely to develop. There are material restrictions on transferring Shares of the Fund. Furthermore, Shareholders may not "redeem" from the Fund in the conventional sense, but rather may only elect to cease participating in new Fund investments by generally Converting their Shares into Class L Shares, which will remain subject to

investment risk and will continue to pay fees and expenses (including the Management Fee), until the Fund is able to distribute the relevant Liquidation Proceeds.

Dependence on the Investment Manager

The Fund must rely on the ability of the Investment Manager to manage the Fund's trading and investment program indirectly through its investment in the Master Fund. The Investment Manager, in turn, depends on the services of certain key personnel. The loss of the Investment Manager's services could be material and adverse to the Fund and would likely result in the premature termination of the Fund.

Dependence on the Portfolio Manager

The success of the Fund depends upon the ability of the Portfolio Manager to develop and implement, as well as allocate Master Fund capital among, investment strategies in an attempt to achieve the Fund's investment objective. If the Investment Manager were to lose the services of the Portfolio Manager, the consequences to the Fund could be material and adverse, and would likely lead to the premature termination of the Fund.

Capital Market Risk

The Investment Manager's strategies are subject to a number of market risks, including, without limitation, directional price movements, deviations from historical pricing relationships, changes in the regulatory environment, changes in market volatility, "flights to quality" and "credit squeezes." The Investment Manager's style of alternative investing may be materially more speculative than traditional investing strategies. Under certain market conditions, alternative investment strategies such as those to be employed by the Fund, have from time to time incurred sudden and dramatic losses.

The diversification of the Fund's positions may not always be significant and, even if significant, may not provide meaningful risk control, even though such diversification may reduce the Fund's profit potential due to offsetting profits and losses from different positions and strategies.

Structural economic and regulatory changes could adversely affect the prospects for the Investment Manager's strategies generally, as could certain general market conditions.

The particular or general types of market conditions in which the Fund may incur losses or experience unexpected performance volatility cannot be predicted, and the Fund may materially underperform other investment funds with substantially similar investment objectives and approaches.

Leverage

The Master Fund may invest in derivative instruments that have leverage embedded and in other investment instruments and transactions that are inherently leveraged. Although the Master Fund does not regularly borrow money directly and is not expected to do so in the future, there are generally no restrictions on the amount or type of leverage which the Master Fund may use, and the Master Fund may borrow money directly from time to time. The Investment Manager will determine such leverage based on factors deemed relevant by the Investment Manager. The use of leverage can dramatically magnify both gains and losses, increasing the possibility of a Shareholder's total loss of its investment in the Master Fund.

Leverage achieved by the Master Fund through margin borrowings requires it to post collateral with brokers and counterparties. As a general matter, the banks and dealers that provide financing to the Master Fund can apply essentially discretionary margin, haircut, financing, security and collateral valuation policies. Changes by banks and dealers in such financing policies, or the imposition of other credit limitations or restrictions, whether due to market circumstances or governmental, regulatory or judicial action, may result in large margin calls, loss of financing, forced liquidation of positions at disadvantageous prices, termination of swap and repurchase agreements and cross-defaults to agreements with other dealers. Any such adverse effects may be exacerbated in the event that such limitations or restrictions are imposed suddenly and/or by multiple market participants at or about the same time. The imposition of such limitations or restrictions could compel the Master Fund to liquidate all or part of its portfolio at disadvantageous prices. In recent years, banks and dealers have substantially curtailed financing activities and increased collateral requirements, forcing many hedge funds to liquidate positions. Any or all of these situations could arise due to circumstances that the Investment Manager may be unable to control.

Competition

The Fund competes with numerous other private investment funds as well as other investors, many of which have resources substantially greater than the Fund's.

The amount of capital committed to alternative investment strategies has increased dramatically during recent years. At the same time, market conditions have become significantly more adverse to many of such strategies than they were in previous years. The profit potential of the Fund may be materially reduced as a result of the "saturation" of the alternative investment field.

Lack of Market Liquidity

The market for certain instruments traded by the Master Fund may have periods of limited liquidity. Lack of liquidity can make it economically unfeasible for the Master Fund to recognize profits on open positions or to close out open positions against which the market is moving. In addition, illiquidity can disconnect market values from the historical pricing indicators used in the Investment Manager's investment analysis, and the fewer transactions that take place, the greater the risk that market values do not reflect true pricing relationships or fair value.

A financial exchange may from time to time suspend or limit trading. Such a suspension could render it difficult or impossible for the Master Fund to liquidate affected positions and thereby expose it to uncontrollable losses. There is also no assurance that off-exchange markets will remain liquid enough for the Master Fund to close out positions.

It is impossible to predict what additional interim or permanent governmental restrictions may be imposed on the markets (including specifically the hedge fund industry) and/or the effect of such restrictions on the Master Fund's strategies. However, the Investment Manager believes that increased regulation of the financial markets could be materially detrimental to the Master Fund.

The events of 2008–2009 highlighted the adverse effects of market illiquidity on alternative investment strategies.

Market Disruptions

The global financial crises of 2008-2009 witnessed pervasive and fundamental disruptions to the global financial markets that led to extensive and unprecedented governmental intervention. Such

intervention was in certain cases implemented 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. Future disruptions may result in similar government interventions. As one would expect given the complexities of the financial markets and the limited time frame within which governments have felt compelled to take action, such interventions are often unclear in scope and application, resulting in confusion and uncertainty which in itself has been materially detrimental to the efficient functioning of the markets as well as previously successful investment strategies.

The Fund may incur major losses in the event of disrupted markets and other extraordinary events in which historical pricing relationships become materially distorted. The risk of loss from pricing distortions is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving. The financing available to the Master Fund from its banks, dealers and other counterparties is typically reduced in disrupted markets. Such a reduction may result in substantial losses to the Fund. Market disruptions may from time to time cause dramatic losses for the Fund, and such events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk.

Political and Market Uncertainty

Some countries, including the U.S., are considering the adoption of more protectionist trade policies and moving away from the tighter financial industry regulations that followed the 2008 financial crisis. The U.S. is also said to be considering significant new investments in infrastructure and national defense which, coupled with lower federal taxes, could lead to sharply increased government borrowing and higher interest rates. The exact shape of these policies is still being worked out through the political process, but the equity and debt markets may react strongly to expectations, which could increase volatility, especially if the market’s expectations for changes in government policies are not borne out. Also, prices of many U.S. equity securities have increased substantially for the last several years, U.S. unemployment has declined and many market prognosticators reportedly expect the U.S. Federal Reserve to continue to raise interest rates in an effort to limit inflation and/or believe the market may experience a “correction” to lower values.

In addition, global economies and financial markets are increasingly interconnected, which increases the possibilities that conditions in one country or region might adversely impact issuers in a different country or region. A rise in protectionist trade policies, and the possibility of changes to some international trade agreements, could affect the economies of many nations in ways that cannot necessarily be foreseen at the present time.

High public debt in the U.S. and other countries creates ongoing systemic and market risks and policymaking uncertainty. Interest rates have been unusually low in recent years in the U.S. and abroad. Because there is little precedent for this situation, it is difficult to predict the impact on various markets of a significant rate increase or other significant policy changes.

Potentially Adverse Effects of “Low-Latency” Trading

It is estimated that over 50% of the equity trades executed by securities exchanges are implemented by “low-latency” computerized strategies trading in massive volume and with high turnover on the basis of technical market factors. Such trading has little, if anything, to do with the qualitative analysis of the prospects for an issuer’s success. Low-latency trading not only eliminates mispricing on which the Master Fund might otherwise capitalize, but also may be a dominant factor

in determining market prices, making it difficult for the Investment Manager's investment approach to succeed.

Interest-Rate Risks

The prices of the equities, fixed-income securities and credit securities held by the Master Fund may be sensitive to interest-rate fluctuations.

The operations of the issuers in which the Master Fund invests may also be sensitive to interest-rate changes. To the extent such issuers rely on financing for working capital needs, their profitability will be materially impacted by changes in interest rates, and such changes can also materially affect consumer demand for many products in the sectors in which the Master Fund trades.

The Investment Manager does not purport to have any expertise predicting future interest-rate movements, particularly as interest rates can be materially influenced by government interests reflecting changing political as well as macro economic factors.

Inflation

There has been an unusually low rate of inflation in the United States and most other developed economies for some time. At the same time, the central governments have been injecting unprecedented amounts of financial stimulus into these economies — historically a recurring cause of serious inflation. Were significant inflation to occur, the effect on the Investment Manager's strategy could be materially adverse — while unpredictable, stocks have traditionally been considered a form of "hedge" against inflation, but that is not always the case (particularly in the case of any individual stock) and the Master Fund takes short as well as long positions.

Systemic Risk

The events of late 2008 demonstrated the systemic risk of a general loss in confidence, or simply uncertainty, concerning the stability of financial institutions in general. It is difficult, if not impossible, for any counterparty to know the financial condition of another counterparty in detail, and in a scenario in which a major investment bank declares bankruptcy, resulting in lasting uncertainty concerning, and material losses of, its customer funds, financial institutions can suddenly cease ordinary course dealings with each other, resulting in "credit freezes," the inability to refinance short-term borrowings and general dysfunction of the financial markets.

Availability of Suitable Investments

While the Investment Manager believes that there are currently available many attractive investments of the type in which the Master Fund currently invests, there can be no assurance that such investments will continue to be available for the Master Fund's investment activities, or that available investments will meet the Master Fund's investment criteria.

Credit Ratings

Credit ratings of structured finance products, other debt instruments and investments represent the rating agencies' opinions regarding their credit quality and are not a guarantee of future credit performance of such securities. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value. Therefore, the ratings

assigned to securities by rating agencies may not fully reflect the true risks of an investment. Further, in the past several years many highly rated structured securities have been subject to substantial losses.

Concerns Regarding the E.U. and Brexit

Global markets and economic conditions have recently been negatively impacted by the ability of certain European Union (“E.U.”) member states to service their sovereign debt obligations. The continued uncertainty over the outcome of the E.U. governments’ financial support programs and the possibility that other E.U. member states may experience similar financial troubles could further disrupt global markets. In particular, it has and could in the future disrupt equity markets and result in volatile bond yields on the sovereign debt of E.U. members. These factors could have an adverse effect on the Fund. It may be possible for a member state that has adopted the Euro as its currency to opt out of it as a currency. The exit of one or more countries from the E.U./Euro zone or the dissolution of the E.U. could lead to redenomination and revaluation of obligations of obligors in exiting countries. Any such exit and redenomination and revaluation would cause significant uncertainty with respect to outstanding obligations of counterparties and debtors in any exiting country, whether sovereign or otherwise, and lead to complex, lengthy litigation. The resulting uncertainty and market stress could also cause, among other things, severe disruption to equity markets, significant increases in bond yields generally, potential failure or default of financial institutions, including those of systemic importance, a significant decrease in global liquidity, a freeze-up of global credit markets and worldwide recession.

On June 23, 2016, the United Kingdom (“U.K.”) held an “in-or-out referendum” on the U.K.’s membership in the E.U., the result of which favored the exit of the U.K. from the E.U., commonly known as “**Brexit**.” More recently, Article 50 of the Lisbon Treaty was activated, which is the official mechanism through which Brexit will be implemented. The U.K. has the largest financial services sector in the E.U. A process of negotiation has begun to determine the future terms of the U.K.’s relationship with the E.U. which could take many forms. In the meantime, the U.K. remains a member of the E.U. The potential impact of Brexit on the Fund is currently unclear. Depending on the terms of Brexit, economic conditions in the U.K., the rest of the E.U. and global markets may be adversely affected by reduced economic growth and volatility. The uncertainty during and after the period of negotiation could also have a negative economic impact and increase volatility in the financial markets, particularly, but not exclusively, in the E.U. This volatility and negative economic impact could, in turn, adversely affect the Fund. Further items that may be affected by Brexit may include the passporting of financial services within the E.U. It is possible that Brexit will stimulate further calls for referenda and political instability amongst member states of the E.U. and in the U.K. itself with attendant risks as described above. Many of the risks and effects described above have already been felt in connection with Brexit, but they could be magnified in the event of further departures from the E.U.

Certain Strategy Risks

Directional Trading

Many of the positions taken by the Investment Manager are fundamentally directional in nature, intended to profit from forecasting absolute price movements in a particular asset. Predicting future prices is inherently uncertain and the losses incurred, if the market moves against a position, are often not hedged. The speculative aspect of attempting to predict absolute price movements is generally perceived to exceed that involved in attempting to predict relative changes in price.

Fundamental Strategies

Fundamental analysis — which posits that markets are imperfect and that mispricings can be identified between prevailing market prices and those indicated by underlying fundamental data — is subject to the risk of inaccurate or incomplete market information, as well as the difficulty of predicting prices based on such information. Furthermore, even if the analyst is successfully able to identify mispricings on the basis of fundamental factors, there is the additional uncertainty of predicting the duration of such mispricings and, accordingly, when or whether it will be profitable to invest so as to profit from them. Fundamental analysis is subject to significant losses when market sentiment leads to the prices of assets being materially discounted from the level indicated by fundamental analysis (as in the case of “flights to quality” when the demand for assets other than Treasury securities diminishes to a degree significantly in excess of that indicated by the fundamental differences between Treasuries and other securities) or when technical factors, such as price momentum or option expirations, dominate the market.

Relative Value and Event-Driven Investments

The Master Fund pursues certain relative value strategies, taking long positions in securities believed to be undervalued and short positions in securities believed to be overvalued. In the event that the perceived valuations underlying the Master Fund’s trading positions were to fail to converge toward, or were to diverge further from, the Investment Manager’s expectations, the Master Fund could incur substantial losses. Market disruptions and uncertainty can also cause substantial losses if relative value positions are forced to be prematurely terminated due to severe price changes.

Credit Strategies

The Master Fund invests in the credit markets, attempting to take advantage of undervalued securities as well as relative mispricings. The identification of attractive investment opportunities in disrupted credit markets is difficult and involves a significant degree of uncertainty. The credit markets are, in general, highly susceptible to interest rate movements, government interference, economic news, and investor sentiment. There was significant volatility in the credit markets in 2008-2009.

During periods of “credit squeezes” or “flights to quality,” the market for credit instruments other than U.S. Treasury bills can become substantially reduced. This poses a particular risk that leveraged credit instrument positions held by hedge funds that pursue credit-related investment strategies may need to be sold at discounts to fair value in order to meet margin calls. At the same time, dealers may correspondingly reduce the value of outstanding positions, resulting in additional margin calls as loan-to-value triggers are hit under prime brokerage and swap agreements. During the financial market crisis of 2008-2009, the market for credit instruments was so illiquid that a number of private investment funds had to sell otherwise highly desirable investments in other asset classes in order to meet margin calls on their credit positions.

Evolving Strategies; New Strategies

The Investment Manager’s investment approaches are continually evolving, and the Investment Manager may add new trading strategies at any time. The Investment Manager may allocate Master Fund capital to develop and incubate new strategies, even if the Investment Manager has limited experience in such strategies. The Investment Manager anticipates that it will add additional, and terminate existing, strategies on an ongoing basis. There can be no assurance that the

Investment Manager will be successful in implementing the strategies which the Investment Manager may from time to time develop and implement for the Master Fund, or that the Fund will not suffer losses during the development or incubation stage of a strategy.

Importance of Market Judgment

The Investment Manager's strategies are by no means wholly quantitative or systematic; the market judgment and discretion of the Investment Manager's personnel are fundamental to the implementation of its investment strategies. Generally, the greater the importance of subjective factors to a trading strategy, the more unpredictable its results.

Credit Analysis and Credit Risk

The strategies utilized by the Investment Manager require accurate and detailed credit analysis of issuers. The Investment Manager has limited experience with credit analysis, and there can be no assurance that its analysis will be accurate or complete. The Fund may be subject to substantial losses in the event of credit deterioration or bankruptcy of one or more issuers in its portfolio.

Duration of Investment Positions

The Investment Manager typically does not know (except in the case of certain options or derivatives positions which have pre-established expiration dates) the maximum — or, often, even the expected (as opposed to optimal) — duration of any particular position at the time of initiation. The length of time for which a position is maintained varies significantly based on the Investment Manager's subjective judgment of the appropriate point at which to liquidate a position so as to augment gains or reduce losses.

Many of the Master Fund's transactions involve acquiring related positions in a variety of different instruments or markets at or about the same time. Frequently, optimizing the probability of being able to exploit the pricing anomalies among these positions requires holding periods of significant length — often many months to a year or more. Actual holding periods depend on numerous market factors which can both expedite and disrupt price convergences. There can be no assurance that the Master Fund will be able to maintain any particular position, or group of related positions, for the duration required to realize the expected gains, or avoid losses, from such positions.

Certain of the Master Fund's investments may not have a defined time horizon to the extent that they are based upon the realization of the enterprise value of an investment as it develops and evolves. The longer the duration of an investment by the Master Fund, the greater the exposure of such position to the risks of general economic changes as well as changes in the Investment Manager itself.

The Master Fund's ability to realize value from other illiquid investments is often dependent on a "valuation" event — an initial public offering, sale, refinancing, *etc.* The specific "exit strategy" for an illiquid investment may not be determined at the time that the Master Fund commits to such investment, and changing market conditions may preclude the execution of the "exit strategy" that the Investment Manager might have expected to implement.

Hedging Generally

The Investment Manager is not obligated to enter into any hedging transactions. The Investment Manager does not, in general, attempt to hedge all market or other risks inherent in the Master Fund's positions and hedges certain risks only partially, if at all. Specifically, the Investment Manager may choose not to hedge certain risks or determine that hedging is economically unattractive — either in respect of particular positions or in respect of the Master Fund's overall portfolio. The Master Fund's portfolio composition commonly results in various directional market risks remaining unhedged. Although the Investment Manager may rely on diversification to control such risks to the extent that the Investment Manager believes it is desirable to do so, the Master Fund is not subject to any formal diversification policies.

If the Investment Manager attempts to enter into hedging transactions with the intention of reducing or controlling risk, these hedging transactions, even if successful in achieving their objective, will likely reduce the Fund's returns. Furthermore, hedging strategies may be ineffective in controlling risk, due to unexpected non-correlation (or even positive correlation) between the hedging instrument and the position being hedged, increasing rather than reducing both risks and losses.

To the extent that the Investment Manager hedges, its hedging positions generally will not be static but rather will be adjusted continually based on the Investment Manager's assessment of market conditions, as well as the expected degree of non-correlation between the hedges and the portfolio being hedged. The success of any of the Investment Manager's hedging strategies will depend on the Investment Manager's ability to implement such strategies efficiently and cost-effectively, as well as on the accuracy of the Investment Manager's ongoing subjective judgments concerning the hedging positions to be acquired by the Master Fund. Furthermore, to the extent that any hedging strategy involves the use of OTC derivatives transactions, such a strategy would be impacted by implementation of the various regulations adopted pursuant to Dodd-Frank.

Reliance on Corporate Management and Financial Reporting

Many of the Master Fund's strategies rely on the financial information made available by the issuers to which the Master Fund has exposure. The Investment Manager has, and will have, no independent ability to verify the financial information disseminated by the issuers in which the Master Fund invests, and depends upon the integrity of both the management of these issuers and the financial reporting process in general. Recent events have demonstrated the material losses that investors such as the Master Fund can incur as a result of corporate mismanagement, fraud and accounting irregularities. Equity securities prices are particularly vulnerable to instances of corporate mismanagement.

Uncertain Value of Investments

The Investment Manager has broad discretion to invest the Master Fund's capital and will do so in certain cases in instruments which have an uncertain fair value.

There is a risk that a Shareholder who receives Liquidation Proceeds will be paid an amount less than such Shareholder would otherwise be paid if the actual value of the Master Fund's investments is higher than the value determined by the Investment Manager. Conversely, there is a risk that such Shareholder might, in effect, be overpaid if the actual value of such investment is lower than the value determined by the Investment Manager.

The Master Fund may acquire a significant position in a given instrument — a position sufficiently large that the Master Fund is unable to transact freely in such instrument, due to practical, contractual, legal or regulatory restrictions. The value of such position may be materially less than it would have been in the absence of such restrictions.

The actual timing of a position's liquidation may materially affect the values obtained on such liquidation, irrespective of the "fair value" of such position.

The Investment Manager, its affiliates and the Administrator are entitled to rely, without independent investigation, upon pricing information and valuations furnished by third parties, including pricing services.

The prices which dealers and counterparties quote for certain positions may differ materially from the prices at which such dealers and counterparties would be prepared actually to execute transactions in such positions.

Volatility

The prices of numerous instruments traded by the Master Fund have been subject to periods of excessive volatility in the past, and such periods can be expected to recur. Price movements are influenced by many unpredictable factors.

Although volatility can create profit opportunities for the Fund, it can also create the specific risk that historical or theoretical pricing relationships will be disrupted, causing what should otherwise be comparatively low risk positions to incur potentially substantial losses.

The financial markets experienced increased volatility in 2008–2010, which may recur in the future. On the other hand, in 2012 the equity markets experienced unusually low volatility, causing many arbitrage and similar strategies (which focus on profiting from the mispricings created in part by market volatility) to incur major losses.

Stagnant Markets

Although volatility is one indication of market risk, certain of the investment strategies employed by the Master Fund rely for their profitability on market volatility contributing to the mispricings that they are designed to identify. In periods of trendless, stagnant markets and/or deflation, such strategies have materially diminished prospects for profitability.

Illiquid and Longer-Term Investments

The Master Fund may invest in certain illiquid and longer-term positions, including thinly traded securities and other less liquid assets, such as investments in private companies and liquidating vehicles or trusts.

If the Master Fund holds illiquid longer-term investments, the Investment Manager may determine the Fair Market Value of such investments for accounting purposes using valuation models and market information. However, the Master Fund's valuation of these positions may differ materially from the value ultimately realized upon the liquidation of such investments, particularly as certain of such investments tend to have realization and/or events which cause their value to increase or decrease suddenly in a manner not previously reflected in the Net Asset Value at which investors have recently subscribed.

There will often be no trading market for illiquid longer-term investments, and in the event the Master Fund holds such investments, the Master Fund might only be able to sell these positions, if at all, at materially disadvantageous prices.

Rising Interest Rates

Global interest rates are currently at or close to historical lows. In the event that interest rates increase — particularly if they do so suddenly — a number of the Master Fund’s outstanding positions could incur substantial losses, and the ongoing profit potential of certain of the strategies materially decrease.

Short Sales

Short selling — the sale of securities not owned by the Master Fund — involves certain additional risks not applicable to other trading strategies. Short selling exposes the Master Fund to the risk of potentially unlimited losses.

Securities borrowed by the Master Fund in connection with a short sale need to be returned to the securities lender on short notice if so requested. If such a request occurs at a time when other short sellers of the same security are receiving similar requests, a “short squeeze” can occur, in which the Master Fund might be compelled, at a very disadvantageous time, to replace borrowed securities previously sold short with purchases on the open market, likely at prices significantly in excess of the proceeds received from the earlier short sales.

Securities exchanges have imposed various forms of ongoing and potential trading limitations and may impose additional restrictions in the future. Many of these limitations become effective only after market declines, or increases in market volatility, above a certain level, but any of these limitations could, in unusual circumstances, materially adversely affect the Master Fund.

Possible Positive Correlation with Stocks and Bonds

One of the goals in incorporating a non-traditional investment such as the Shares into a portfolio is to provide a potentially valuable element of diversification. However, there can be no assurance, particularly during periods of market disruption and stress, that the performance of the Master Fund will, in fact, experience a low level of correlation with a traditional portfolio of stocks and bonds. In 2008–2009, many hedge funds incurred losses generally comparable to the decline in the Standard & Poor’s 500 Index. The Master Fund’s concentration on equity and equity-linked markets may increase the likelihood of such correlation.

It appears that during periods when market liquidity contracts, both alternative and traditional investment strategies tend to incur losses. Periods of illiquidity can be expected to recur from time to time, and during such periods the potential diversification benefits of an investment in the Master Fund may not be realized. On the contrary, the Master Fund’s performance may be highly correlated with the performance of traditional portfolio holdings.

“New Issue” Trading

The Fund may engage in “new issues” trading. Shareholders that are “restricted persons” under FINRA Rules 5130 and 5131 will not be permitted to participate or participate fully in the returns generated by “new issues” trades.

Participation on Creditors' Committees

The Master Fund may participate on committees formed by creditors to negotiate with the management of financially troubled companies that may or may not be in bankruptcy. The Master Fund may also seek to negotiate directly with debtors with respect to restructuring issues. When the Master Fund chooses to join a creditors' committee, the Master Fund would likely be only one of many participants, each of whom would be interested in obtaining an outcome that is in its individual best interests. There can be no assurance that the Master Fund would be successful in obtaining results most favorable to it in such proceedings, although the Master Fund may incur significant legal fees and other expenses in attempting to do so. As a result of participation by the Master Fund on such committees, the Master Fund may be deemed to have duties to other creditors represented by the committees, which might thereby expose the Fund to liability to such other creditors who disagree with the Master Fund's actions.

Material Non-Public Information

The Axar Parties may have access to material non-public information regarding the securities in which the Fund invests. In the event that the Axar Parties receive such material non-public information, the Investment Manager may be prohibited from effecting transactions in a security that it would desire to effect and thus incur losses. For example, employees of the Investment Manager may serve on boards of directors or executive committees or in other management capacities at companies in which the Master Fund invests, either directly or indirectly. Serving in such a capacity may expose such employee, and by association the Investment Manager and the Master Fund, to certain limitations on the ability to trade the securities of the issuer company and certain conflicts of interest. As a result of such service, an employee may become aware, from time to time, of material non-public information about the company in which the Master Fund invests, and the employee's knowledge is likely to be attributed to the Investment Manager and the Master Fund. Further, by reason of the advisory, due diligence, committee participation and other activities of the Axar Parties, the Axar Parties may acquire confidential or material non-public information or be restricted from initiating transactions in certain securities.

The Axar Parties will not be free to divulge, or to act upon, any such confidential or material non-public information and, due to these restrictions, the Investment Manager may not initiate a transaction for the Master Fund's account that the Investment Manager otherwise might have initiated, and the Master Fund may be frozen in an investment position that it otherwise might have liquidated or closed out. As a result, the Investment Manager and the Master Fund may also be subject to Section 16 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), including the disclosure requirements, the restrictions on purchases and sales, and the disgorgement of profits in certain circumstances. Alternatively, the Investment Manager and its affiliates may decline to receive material non-public information which it is entitled to receive on behalf of the Master Fund or Other Clients in order to avoid trading restrictions for the Master Fund as well as other accounts under its management, even though access to such information might have been advantageous to the Master Fund and other market participants are in possession of such information.

Board Membership

In addition to the risk that an employee of the Investment Manager may become aware of material non-public information regarding the securities in which the Master Fund invests as a result

of such employee's board membership (as discussed above), an employee serving as a director of a company owned, directly or indirectly, by the Master Fund may also face a conflict between the fiduciary duties owed by such employee to the Master Fund and the duties owed to such company. In such circumstances, an employee may act in ways that are in the best interests of such company but not the Master Fund. The Investment Manager intends to prevent employees from taking such positions when, in the Investment Manager's determination, the potential risks to the Fund outweigh the potential benefits. However, there can be no assurance that permitting the board membership of an employee will not result in less favorable results for the Master Fund than if the employee was not permitted to serve in such capacity.

Subordination, "Cramdowns" and Dilution

The Master Fund as the senior secured creditor of an issuer can find itself subordinated to otherwise junior creditors, depending on the laws of the applicable jurisdiction. For example, a bankrupt issuer may be able to apply under local law to the relevant court for "debtor in possession" or similar financing in order to obtain new capital for its operations. The persons who invest such new capital will take a senior position to the Master Fund, even though the Master Fund was previously senior to such persons. The Master Fund may or may not be given an opportunity to participate in such financing.

A reorganization plan approved by any judicial or administrative body may result in a number of different creditors being compelled to accept materially adverse changes to the terms of the debt that they hold — including reduced interest rates, extended maturities and reduced acceleration rights. Such "cramdowns" may be imposed in the discretion of such governmental bodies in order to give the issuer a better chance of remaining economically viable.

In a reorganization, substantial amounts of equity are often issued to the senior lenders in return for the extinguishment of their debt. This can result in substantial dilution to an equity position previously acquired by the Master Fund — either directly or through the acquisition of convertible debt.

Uncertainties of Foreclosure Process

If it becomes necessary to foreclose on the assets underlying a loan acquired by the Master Fund, significant uncertainty may arise as to the outcome of the proceeding. Courts or other arbiters typically have broad discretion as to how they deal with the claims of different creditors, and the claims of secured creditors may not — despite their legal entitlement — always be respected as a matter of policy. There is a greater uncertainty in many emerging markets with respect to foreclosure proceedings because the laws in such markets often are not designed to address institutional lending.

Inadequate Bankruptcy and Insolvency Laws

The Master Fund may make investments in high yield and financially distressed companies around the world, and the issuers in which the Investment Manager invests on behalf of the Master Fund may from time to time be subject to local bankruptcy and insolvency laws. Moreover, even if issuers do not actually become bankrupt or insolvent, the possible effect of such laws on such issuers will directly impact the value of their securities.

Shared Investment Opportunities

The Investment Manager may determine that certain investment opportunities are not appropriate for the Fund or, if appropriate, should not or cannot be allocated in their entirety to the Fund based on such factors as differing investment mandates, trading limitations, cash availability and other considerations deemed relevant by the Investment Manager, as set forth in its trade allocation policy. In such case, the Investment Manager may (but is not required to) allocate any unallocated portions of such opportunities to Other Clients or to one or more Shareholders in the Fund. Notwithstanding the foregoing, the Investment Manager has no obligation to offer any such co-investment opportunity to any Shareholder by virtue of its investment in the Fund. Shareholders participating in such co-investment opportunities may either invest directly in such co-investment opportunities or through vehicles managed by or otherwise affiliated with the Investment Manager (“**Co-Investment Vehicles**”). The fees, other compensation, and terms of any investment in a Co-Investment Vehicle may differ from the fees, other compensation, or terms of an investment in the Fund. Those participating in a shared investment opportunity in which the Fund participates, including Co-Investment Vehicles or Other Clients, may liquidate a co-investment at a different time or times, and in different amounts than the Fund, which may have an adverse effect on the Fund.

In general, the Fund bears all (or its *pro rata* share of) the fees, costs and expenses associated with any shared investment opportunity that is unconsummated, including any portion thereof that may or would have been allocated to potential investors had such shared investment opportunity been consummated. Notwithstanding the foregoing, the Investment Manager will seek to allocate broken deal expenses to investors of the shared investment where it is appropriate and reasonable to do so; however certain investors, including potentially Co-Investment Vehicles or Other Clients formed specifically to invest in the shared investment opportunity, may have no assets from which to pay such expenses, in which case the Fund may bear more than its *pro rata* share.

C. Risks of Certain Instruments Traded

Corporate Debt Obligations, Convertible Securities and High-Yield Securities

The Master Fund may invest in corporate debt obligations, convertible securities (which are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or a different issuer within a particular period of time at a specified price or formula) and high-yield securities.

The market value of debt securities generally tends to decline as interest rates increase and, conversely, increase as interest rates decline. Convertible securities also appreciate when the underlying common stock appreciates, and conversely, depreciate when the underlying common stock depreciates. Debt obligations are subject to the risk of an issuer’s inability to meet principal and interest payments on the obligations, *i.e.*, credit risk. The Investment Manager may actively expose the Master Fund to credit risk. However, there can be no guarantee that the Investment Manager will be successful in making the right selections and thus mitigate the impact of credit risk changes on the Master Fund.

Convertible securities generally: (i) have higher yields than the dividends on the underlying common stocks, but lower yields than non-convertible securities of a comparable duration; (ii) are less volatile in price than the underlying common stock due to their fixed-

income characteristics; and (iii) have a significant option component to their value which is directly impacted by the prevailing market volatility and interest rates. The market for convertible securities is also typically materially less liquid than that for the underlying common stock and the value of convertible securities more directly at risk to increases in interest rates.

Because “high yield” bonds and preferred securities are rated in the lower rating categories by the various credit rating agencies, such securities result in greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominately speculative. They are also generally considered to be subject to greater risk than securities with higher ratings because the yields and prices of such securities may tend to fluctuate more than those for higher-rated securities, the market for lower-rated securities is thinner and less active.

Common Stocks

The Master Fund invests in long and short positions in common stock. Common stock prices are directly affected by issuer-specific events, as well as general market conditions. In addition, in many countries investing in common stocks is subject to greater regulatory and self-regulatory scrutiny than investing in debt or other financial instruments.

Preferred Stock

Preferred stock generally has a preference as to dividends and upon the event of liquidation over an issuer’s common stock, but it ranks junior to debt securities in an issuer’s capital structure. Preferred stock generally pays dividends 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.

Distressed Securities

Investment in the securities of financially troubled issuers and operationally troubled issuers involves a high degree of credit and market risk. Although the Master Fund intends to invest in select companies that, in the view of the Investment Manager, have the potential over the long-term for capital growth, there can be no assurance that such financially troubled issuers or operationally troubled issuers can be successfully transformed into profitable operating companies. There is a possibility that the Master Fund may incur substantial or total losses on its investments or that such investments may not show any return for a considerable period of time. Under such circumstances, the returns generated from the Master Fund’s investments may not compensate investors adequately for the risks assumed. 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 can be no assurance that the Investment Manager will correctly evaluate the value of a company’s assets or the prospects for a successful reorganization or similar action. During an economic downturn or recession, securities of financially troubled or operationally troubled issuers are more likely to go into default than securities of other issuers.

In addition, it may be difficult to obtain information about financially troubled issuers and operationally troubled issuers.

Securities of financially troubled issuers and operationally troubled issuers are less liquid and more volatile than securities of companies not experiencing financial difficulties. The market prices of such securities are subject to erratic and abrupt market movements, and the spread between bid and asked prices may be greater than normally expected. In addition, it is anticipated that many of the Master Fund's portfolio investments may not be widely traded and that the Master Fund's investment in such securities may be substantial relative to the market for such securities. As a result, the Master Fund may experience delays and incur losses and other costs in connection with the sale of its portfolio securities.

Troubled company and other asset-based investments require active monitoring and may, at times, require participation in business strategy or reorganization proceedings by the Investment Manager. To the extent that the Investment Manager becomes involved in such proceedings, the Master Fund may have a more active participation in the affairs of the issuer than that assumed generally by an investor. In addition, involvement by the Investment Manager in an issuer's reorganization proceedings could result in the imposition of restrictions limiting the Master Fund's ability to liquidate its position in the issuer or increase the likelihood of the Master Fund being involved in litigation.

Defaulted Securities

The Master Fund may invest in the securities of companies involved in bankruptcy proceedings, reorganizations and financial restructurings and may have a more active participation in the affairs of the issuer than is generally assumed by an investor. This may subject the Fund to litigation risks or prevent the Master Fund from disposing of securities. In a bankruptcy or other proceeding, the Master Fund as a creditor may be unable to enforce its rights in any collateral or may have its security interest in any collateral challenged, disallowed or subordinated to the claims of other creditors. While the Master Fund will attempt to avoid taking the types of actions that would lead to equitable subordination or creditor liability, there can be no assurance that such claims will not be asserted or that the Master Fund will be able to defend against them successfully. Other investors may purchase the securities of these companies for the purpose of exercising control or management, and the Master Fund may be at a disadvantage to the extent that the Master Fund's interests differ from the interests of these other investors.

Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions which may be contrary to the interests of the Fund. Furthermore, there are instances where creditors and equity holders lose their ranking and priority as such if they are considered to have taken over management and functional operating control of a debtor.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and the Master Fund and is subject to unpredictable and lengthy delays. In addition, during the process the company's competitive position may erode, key management may depart and the

company may not be able to invest adequately. In some cases, the company may not be able to reorganize and may be required to liquidate assets. The debt of companies in financial reorganization will in most cases not pay current interest, may not accrue interest during reorganization and may be adversely affected by an erosion of the issuer's fundamental values. Such investments can result in a total loss of principal.

United States bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that the Master Fund's influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, the class. In addition, certain administrative costs and claims that have priority by law over the claims of certain creditors (for example, claims for taxes) may be quite high.

The Master Fund may purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser.

Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing, and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain.

Bank Loans and Participations

The Investment Manager may invest a portion of the Master Fund's assets in bank loans and participations. The special risks associated with these obligations include (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws, (ii) so called "lender liability" claims by the issuers of the obligations, (iii) environmental liabilities that may arise with respect to collateral securing the obligations, (iv) adverse consequences resulting from participating in such instruments with other institutions with lower credit quality and (v) limitations on the ability of the Master Fund or the Investment Manager to directly enforce its rights with respect to participations. The Investment Manager balances the magnitude of these risks against the potential investment gain prior to entering into each such investment. Successful claims by third parties arising from these and other risks, absent bad faith, may be borne by the Master Fund. The Master Fund does not currently intend to originate, organize or serve as an agent in connection with bank loans and participations.

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

Trade and Other General Unsecured Claims

The Master Fund may acquire interests in claims of trade creditors and other general unsecured claim holders of a debtor. Trade claims generally include, but are not limited to, claims of suppliers for goods delivered and for which payment has not been made, claims for unpaid services rendered, claims for contract rejection and claims related to litigation. Trade claims are typically unsecured and may be subordinated to other unsecured obligations of the debtor. The repayment of trade claims is subject to significant uncertainties, including potential set-off by the debtor, characterization of “preferences” in bankruptcy as well as the other uncertainties described herein with respect to other distressed debt obligations.

Swap Agreements

Among the various derivative transactions the Master Fund may enter into are swap agreements and options on swap agreements (“**swaptions**”). These agreements can be individually negotiated and structured to include exposure to a variety of different types of investments, asset classes or market factors. The Master Fund, for instance, may enter into swap agreements with respect to interest rates, credit defaults, currencies, securities, indices of securities and other assets and/or other components of risk or return. Depending on their structure, swap agreements may increase or decrease the Master Fund’s market exposure.

Whether the Master Fund’s use of swap agreements or swaptions will be successful will depend on the Investment Manager’s selection and negotiation of such transactions for the Master Fund. Swap transactions may be highly illiquid and may increase or decrease the volatility of the Master Fund’s portfolio. Moreover, the Master Fund bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty. The Master Fund will also bear the risk of loss related to swap agreements, for example, due to breaches of such agreements or the failure of the Master Fund to post or maintain required collateral. Many swap markets are relatively new and still developing. Dodd-Frank, as well as possible additional government regulation or other developments in the swap markets could adversely affect the Master Fund’s swaps trading and result in material losses.

Dodd-Frank has required comprehensive regulation of swap agreements among many market participants, and may significantly disrupt the Master Fund’s use of swaps — at least for the foreseeable future.

Indirect Participation on Swap Execution Facilities

In an effort to facilitate the investment strategies employed by the Investment Manager on behalf of the Master Fund, the Investment Manager may engage brokers that are members of swap execution facilities (“**SEFs**”) to place trades on its behalf. While the Master Fund and Investment Manager are not direct members of any SEF, such indirect SEF participation may nevertheless require the Master Fund and/or Investment Manager to consent to the SEF’s jurisdiction as a self-regulatory organization and to be subject to certain aspects of the SEF’s rulebook, which could subject it to a wide range of regulations and other obligations, together with associated costs. Like any other self-regulatory organization, SEFs regularly revise and interpret their rules, and such revisions and interpretations could adversely impact the Fund.

Credit Default Swaps

The Master Fund may purchase and sell credit derivatives contracts — primarily credit default swaps — both for hedging and speculative purposes. The typical credit default swap contract generally requires the seller to pay to the buyer, in the event that a particular reference entity experiences specified credit events, a specified notional amount in exchange for securities issued by such reference entity. In return, the buyer agrees to make periodic payments equal to a fixed percentage of the notional amount of the contract. The Master Fund may also purchase or sell credit default swaps on a basket of reference entities as part of a synthetic collateralized debt obligation transaction.

As a seller of credit default swaps, the Master Fund will incur leveraged exposure to the credit of the reference entity and is subject to many of the same risks it would incur if it were holding debt securities issued by the reference entity. However, the Master Fund would not have any legal recourse against the reference entity and would not benefit from any collateral securing the reference entity's debt obligations. In addition, the credit default swap buyer is likely to have broad discretion to select which of the reference entity's debt obligations to deliver to the Master Fund following a credit event and would likely choose the obligations with the lowest market value in order to maximize the payment obligations of the Master Fund.

As a buyer of credit default swaps, in circumstances in which the Master Fund did not own the debt securities that are deliverable under a credit default swap, the Master Fund would be exposed to the risk that deliverable securities would not be available in the market, or would be available only at unfavorable prices, as would be the case in a so-called “short squeeze.”

As a buyer or a seller of credit default swaps, the Master Fund takes credit risk with respect to its counterparties (see “— **Certain Structural Risks — Counterparty and Settlement Risk,**” **below**). Credit default swaps generally trade on the basis of theoretical pricing and valuation models, which may not accurately value such swap positions when established or when subsequently traded or unwound under actual market conditions.

In certain instances of issuer defaults or restructurings, it has been unclear under the standard industry documentation for credit default swaps whether or not a “credit event” triggering the seller's payment obligation had occurred.

The market in credit default swaps may be substantially curtailed by Dodd-Frank and the regulations promulgated thereunder.

RMBS and CMBS

The Master Fund may invest in residential (“**RMBS**”) and commercial (“**CMBS**”) mortgage-backed securities. Investing in RMBS and CMBS involves the general risks typically associated with investing in traditional fixed-income securities (including interest rate and credit risk), as well as additional risks peculiar to the mortgages underlying such RMBS and CMBS. Mortgage-backed securities (“**MBS**”) generally provide for the payment of interest and principal on a monthly basis, and there also exists the possibility, particularly with respect to RMBS, that principal may be prepaid at any time due to, among other reasons, prepayments on the underlying mortgage loans or other assets. The rate of prepayments on underlying mortgages affects the price and volatility of an MBS, and may have the effect of shortening or extending the effective maturity beyond what was anticipated. Further, different types of MBS are subject to varying degrees of prepayment risk.

Finally, the risks of investing in such instruments reflect the risks of investing in real estate securing the underlying loans, including the effect of local and other economic conditions, the ability of tenants to make payments, and the ability to attract and retain tenants.

Prepayments of the mortgage loans underlying RMBS and CMBS may be affected by any number of factors. In general, any factors that increase the attractiveness of selling a mortgaged property or refinancing a mortgage loan, enhance a borrower's ability to sell or refinance or increase the likelihood of default under a mortgage loan, would be expected to cause the rate of prepayment in respect of a pool of mortgage loans to accelerate.

Portfolios of MBS may be backed by residential mortgage loans located in only a few states or regions, and be subject to geographic risks relating to such areas.

Index Risk

The Master Fund may invest in structured notes, variable rate asset-backed securities ("ABS") and MBS, including adjustable-rate MBS, which are backed by mortgages with variable rates, and certain classes of MBS derivatives, the rate of interest payable under which varies with a designated rate or index. The value of these investments is closely tied to the absolute levels of such rates or indices, or the market's perception of anticipated changes in those rates or indices. This introduces additional risk factors related to the movements in specific indices or interest rates which may be difficult or impossible to hedge, and which also interact in a complex fashion with prepayment risks.

Structured Notes

The structured note market evolved as a way to give investors exposure to indices and risks which were otherwise not available to them. For example, U.S. fund managers restricted to U.S. dollar-denominated instruments issued by an agency of the U.S. government but who sought exposure to the yen, might have purchased an agency structured note, paying, in dollars, a coupon linked by some formula to the dollar/yen exchange rate. The coupon attached to a structured note could depend on a wide variety of indices: U.S. or foreign interest rates, U.S. or foreign swap rates, foreign exchange rates or equity indices. The value of such a structured note is closely linked to the level of the relevant index (or indices). Moreover, the coupon may have an optional or contingent dependence on an index (or indices) increasing the complexity of any related hedge.

Consumer Asset-Backed Securities

The Master Fund may invest in a wide variety of consumer asset-backed securities, including those backed by auto loans and leases, credit card loans and student loans, and other types of ABS, including those backed by small business loans, rental, commercial, and government fleet leases, certain insurance premium finance loans, equipment loans and leases, mortgage servicing advance loans, aircraft leases, manufactured housing installment sale contracts and installment loan agreements, floorplan loans and franchise loans.

Like MBS, ABS are affected by payments, defaults, and losses on the underlying assets and the recent global economic slowdown may adversely affect the performance and market value of these securities. Rising unemployment, decreases in the values of consumer assets and continued lack of availability of credit may lead to increased default rates across a wide range of different ABS receivables. Such market conditions may be accompanied by decreased consumer demand for the

assets underlying such securities, which may weaken collateral coverage and increase the amount of a loss in the event of default.

ABS are also susceptible to prepayment risks. Receivables in ABS may or may not contain prepayment penalties. A reduction in interest rates may increase prepayments on the receivables and in turn a reduction in yield to maturity for ABS holders purchasing such securities at a premium. An increase in interest rates or other factors may slow prepayments which would result in a reduction in yield to maturity for ABS holders purchasing such securities at a discount. Governmental regulation may prohibit, limit, or delay repossession and sale of the assets to recover losses on defaulted assets underlying these ABS. As a result, payments on the related issue of ABS could be delayed and/or reduced. The assets underlying ABS may be obligations of the borrowers thereunder only and not insured or guaranteed by any other person or entity; consequently, distributions on such ABS may depend solely upon the amount and timing of payments and other collections on the related underlying assets.

Other Structured Investment Products

In addition to structured notes, the Master Fund may issue, acquire or otherwise participate in a variety of different structured investment products including, but not limited to, total return swaps and options. These structured products involve not only the risks of the underlying “reference asset,” but also the risks (including acceleration of the financing embedded in the structure and/or restrictions imposed on the management and nature of the permissible reference assets) and costs of creating the structured products.

Equity-Linked Instruments and Related Options

A number of the financial instruments to be traded by the Master Fund are referenced to underlying equities but also incorporate other components — duration, strike price, premiums, etc. — which can result in the Master Fund’s positions being unprofitable even though the Investment Manager may have correctly assessed the market value of the underlying equity instrument.

The Investment Manager may trade in put and call options, which involve qualitatively different risks than owning or selling short the underlying common stock. Because option premiums paid or received by an investor are small in relation to the market value of the investments underlying the options, trading put and call options is highly leveraged.

A number of traders as a matter of policy will not sell “naked” options — *i.e.*, options on common stocks not already owned by the trader in question — due to the risk of the value of such options spiking dramatically due to changes in stock prices, market volatility and/or interest rates. The Investment Manager, however, may from time to time sell “naked” options.

Derivatives Generally

The Master Fund uses derivative financial instruments, including, without limitation, warrants, options, swaps, convertible securities, notional principal contracts, contracts for differences, forward contracts and futures contracts as well as options on such futures contracts. The use of derivative instruments — both for speculation and for hedging purposes — involves a variety of material risks, including the extremely high degree of leverage often embedded in such instruments as well as the possibility of material and prolonged deviations between the theoretical and realizable value of a derivative. The market in derivative instruments is also typically materially less liquid than the market in the underlying reference asset. Such risks (and other risks that may not be anticipated)

may make it difficult as well as economically non-viable to the Master Fund to close out derivative positions in order either to realize gains or to limit losses.

Many of the derivatives to be traded by the Master Fund are principal-to-principal or OTC contracts between the Master Fund and third parties entered into privately, rather than on an exchange. As a result, the Master Fund generally will not be afforded the regulatory and financial protections of an exchange or its clearinghouse (or of the government regulator that oversees such exchange and clearinghouse). OTC contracts subject the Master Fund to credit risk with regard to the third parties with which it trades and the Master Fund will also bear the risk of counterparty non-performance under such contracts. Furthermore, in privately negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices.

Many derivatives are valued on the basis of dealers' pricing of these instruments. However, the price at which dealers value a particular derivative and the price which the same dealers would be willing to pay for such derivative should the Master Fund wish or be forced to sell such position may be materially different. Such differences can result in an overstatement of the Master Fund's Net Asset Value and may have a material adverse effect upon the Master Fund in situations in which the Master Fund is required to sell derivative instruments.

The Master Fund's use of derivatives for hedging purposes involves certain additional risks, including: (i) imperfect correlation between price movements in the asset on which the derivative is based and price movements in such derivative; and (ii) possible impediments to effective portfolio management or the ability to meet short-term obligations because of the percentage of the Master Fund's assets segregated to secure its obligations under derivatives contracts.

The terms of the Master Fund's derivative contracts generally allow the counterparty to the Master Fund to terminate such contracts under numerous circumstances, including as a result of certain levels of Net Asset Value declines (whether as a result of performance, redemptions or a combination of the two), increases in the Master Fund's mark-to-market exposure to such counterparty and the Master Fund's postponement of the determination of Net Asset Value and/or Effective Dates. If a derivative contract is terminated prematurely, the Master Fund is likely to incur material losses.

Regulation of the OTC Derivatives Market

Dodd-Frank, enacted in July 2010, included provisions that comprehensively regulated the OTC derivatives markets for the first time. Dodd-Frank, and the rules promulgated thereunder, mandates that a substantial portion of OTC derivatives be submitted for clearing to regulated clearinghouses. OTC trades submitted for clearing are subject to minimum initial and variation margin requirements set by the relevant clearinghouse, as well as margin requirements mandated by the CFTC, SEC and/or federal prudential regulators. OTC derivatives dealers also typically demand the unilateral ability to increase the Master Fund's collateral requirements for cleared OTC trades beyond any regulatory and clearinghouse minimums. The regulators also have imposed margin requirements on non-cleared OTC derivatives and requirements regarding the holding of customer collateral by OTC derivatives dealers. These requirements may increase the amount of collateral the Master Fund is required to provide and the costs associated with providing it. OTC derivative dealers also are required to post margin to the clearinghouses through which they clear their customers' trades instead of using such margin in their operations, as was widely permitted before Dodd-Frank. This has increased and will continue to increase the OTC derivative dealers' costs, and these increased

costs are generally passed through to other market participants in the form of higher upfront and mark-to-market margin, less favorable trade pricing, and the imposition of new or increased fees, including clearing account maintenance fees.

With respect to cleared OTC derivatives, the Master Fund does not face a clearinghouse directly but rather does so through an OTC derivatives dealer that is registered with the CFTC or SEC and that acts as a clearing member. The Master Fund may face the indirect risk of another clearing member customer failing to meet its obligations to its clearing member. Although in the United States cleared OTC derivatives are not generally subject to the same “fellow customer risk” as cleared futures contracts due to the operation of the CFTC’s “legally segregated, but operationally commingled” customer protection rules, if a clearinghouse through which the Master Fund clears OTC derivatives fails for any reason, including due to a default by a cleared swaps customer of any futures commission merchant (“FCM”), the Master Fund will suffer losses to the extent that such failure causes the Master Fund’s FCM to default or the Master Fund’s FCM is no longer obligated to perform on the cleared OTC derivative following the failure of the clearinghouse.

The CFTC also requires certain derivative transactions that were previously executed on a bilateral basis in the OTC markets to be executed through a regulated futures exchange or swap execution facility. The SEC is also expected to impose similar requirements on certain security-based derivatives in the future, though it is not yet clear when these parallel SEC requirements will go into effect. Such requirements may make it more difficult and costly for investment funds, including the Master Fund, to enter into highly tailored or customized transactions. They may also render certain strategies in which the Master Fund might otherwise engage impossible or uneconomic to implement. If the Master Fund decides to execute derivatives transactions through such exchanges or execution facilities — and especially if it decides to become a direct member of one or more of these exchanges or execution facilities — the Master Fund would be subject to the rules of the exchange or execution facility, which would bring additional risks, liabilities, and regulatory requirements.

OTC derivative dealers are required to register with the CFTC and will ultimately be required to register with the SEC. Registered swap dealers will also be subject to minimum capital and margin requirements and are subject to business conduct standards, disclosure requirements, reporting and recordkeeping requirements, transparency requirements, position limits, limitations on conflicts of interest, and other regulatory burdens. These requirements further increase the overall costs for OTC derivative dealers, which costs may be passed along to market participants as market changes continue to be implemented.

Futures Contracts

The Master Fund may trade futures contracts and commodity options, primarily for hedging purposes.

Trading in futures contracts is a specialized activity that may entail greater than ordinary investment risks. Futures markets are highly volatile and are influenced by factors, such as changing supply and demand relationships, governmental programs and policies, national and international political and economic events and changes in interest rates. In addition, because of the low margin deposit normally required in futures trading, a high degree of leverage is typical of a futures trading account. Consequently, a relatively small price movement in a futures contract may result in substantial losses to the trader. Futures trading may also be illiquid because certain futures exchanges do not permit trading in a particular type of future beyond certain set limits. If prices fluctuate during a single day’s trading beyond those limits, which conditions have in the past sometimes lasted for

several days in certain contracts, the Master Fund could be prevented from promptly liquidating unfavorable positions and thus be subject to substantial losses.

The CFTC and the United States commodities exchanges impose limits referred to as “speculative position limits” on the maximum net long or net short speculative positions that any person may hold or control in any particular futures or options contracts traded on United States commodities exchanges. For example, the CFTC currently imposes speculative position limits on a number of agricultural commodities (*e.g.*, corn, oats, wheat, soybeans and cotton) and United States commodities exchanges currently impose speculative position limits on many other commodities. Dodd-Frank significantly expanded the CFTC’s authority to impose position limits with respect to futures contracts and options on futures contracts, swaps that are economically equivalent to futures or options on futures, and swaps that are traded on a regulated exchange and certain swaps that perform a significant price discovery function. The CFTC has attempted to exercise this authority to enact additional and more restrictive speculative position limits with respect to futures and options on futures on so-called “exempt commodities” (which includes most energy and metals contracts) and with respect to agricultural commodities, but those limits were vacated by a United States District Court. The CFTC has since re-proposed a new set of speculative position limit rules which are not yet finalized or effective. If the CFTC adopts final position limit rules, the size or duration of positions available to the Fund may be severely limited. All accounts owned or managed by the Investment Manager are likely to be combined for speculative position limit purposes, both under current rules and under the CFTC’s proposed expanded position limits rules. The Fund could be required to liquidate positions it holds in order to comply with such limits, or may not be able to fully implement trading instructions generated by its trading models, in order to comply with such limits. Any such liquidation or limited implementation could result in substantial costs to the Fund.

Forward Contracts

The Master Fund may trade deliverable forward contracts in the inter-bank currency market. Such deliverable forward contracts are not currently traded on exchanges; rather, banks and dealers act as principals in these markets. As a result of Dodd-Frank, the CFTC regulates certain types of forwards, specifically non-deliverable forwards and many so-called deliverable forwards where the parties do not take actual delivery. Changes in the forward markets may entail increased costs and result in burdensome reporting requirements. There is currently no limitation on the daily price movements of forward contracts. Principals in the forward markets have no obligation to continue to make markets in the forward contracts traded. The imposition of credit controls by governmental authorities or the implementation of regulations pursuant to Dodd-Frank might limit such forward trading to less than that which the Investment Manager would otherwise recommend, to the possible detriment of the Fund.

Currency Markets

The Master Fund trades currencies and foreign exchange. Such transactions involve a significant degree of risk. The markets in which foreign exchange transactions are effected are volatile and specialized. Significant changes, including changes in liquidity and prices, can occur in such markets within very short periods of time, often within minutes. Foreign exchange trading risks include, but are not limited to, exchange rate risk, maturity gaps, interest rate risk and potential governmental interference through regulation of the local exchange markets, foreign investment or particular transactions in the native or foreign currencies. Foreign exchange transactions can result in the Master Fund’s returns being substantially better or worse than they would have been had the Master Fund not entered into such transactions.

Exchange Rate Risk and Currency Hedging

The Master Fund's investments generally are denominated in U.S. dollars, though the Master Fund may make investments denominated in non-U.S. dollar currencies from time to time. To the extent the Master Fund makes investments denominated in non-U.S. dollar currencies, the Fund is subject to the risk that the value of such other currencies will decline versus the U.S. dollar. The Investment Manager may in its discretion, but is not required to, hedge currency risks, including through forward contracts (agreements to exchange one currency for another at a future date), swap agreements or futures, to protect against adverse changes in exchange rates and to facilitate transactions in non-U.S. securities to the extent and in the manner the Investment Manager deems practicable. In each instance, the ability to implement and maintain any such hedging transactions will be dependent upon numerous factors, including: (a) the willingness of the hedging counterparty or broker to accept or maintain such transactions; (b) the Master Fund's ability to satisfy margin or settlement payments on such transactions and the deadlines imposed for making such payments; and (c) the potential bankruptcy of the hedging counterparty or broker for such transactions.

Small to Medium Capitalization Companies

The Investment Manager may invest a portion of the Master Fund's capital in the securities of companies with small to medium market capitalizations. Although the Investment Manager believes that these securities may provide significant potential for appreciation, such securities, particularly smaller-capitalization stocks, often involve higher risks than do investments in the securities of larger-capitalization companies. Smaller-capitalization stocks are often more volatile and more illiquid than large-capitalization stocks.

Municipal Instruments

The Master Fund may invest in municipal bonds. These bonds—backed by the taxing power of a municipality, by dedicated revenue streams or by other sources—are subject to governmental approvals and political processes and are often limited in aggregate amount. The maturity dates, call and sinking fund payment and other terms of these securities vary widely, as does the demand for different issues, as well as the creditworthiness of the respective issuers. There can be no guarantee that the Investment Manager will be successful in making the right selections and thus mitigate the impact of credit risk on the Master Fund.

Non-U.S. Markets

Investing in non-U.S. securities involves certain considerations not typically associated with investing in the securities of U.S. issuers. These considerations include changes in exchange rates and exchange control regulations, political and social instability, expropriation, imposition of punitive and retroactive taxes, less market liquidity and less available issuer-specific information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

Emerging Markets

While the Master Fund trades primarily in the United States and Canada, it may invest in certain other countries, including other G-10 countries and emerging markets, from time to time. Investing in emerging market debt or equity involves certain risks and special considerations not

typically associated with investing in other more established economies or securities markets. Such risks may include: (i) the risk of nationalization or expropriation of assets or confiscatory taxation; (ii) social, economic and political uncertainty including war; (iii) dependence on exports and the corresponding importance of international trade; (iv) price fluctuations, less liquidity and the smaller capitalization of the securities markets; (v) currency exchange rate fluctuations; (vi) rates of inflation (including hyperinflation); (vii) controls on foreign investment and limitations on repatriation of invested capital and on the Master Fund's ability to exchange local currencies for U.S. dollars; (viii) governmental involvement in and control over the economies; (ix) governmental decisions to discontinue support of economic reform programs generally and to impose centrally planned economies; (x) differences in auditing and financial reporting standards which may result in the unavailability of material information about issuers; (xi) less extensive regulation of the securities markets; (xii) longer settlement periods for securities transactions in emerging markets; (xiii) less developed corporate laws regarding fiduciary duties of officers and directors and the protection of investors; and (xiv) certain considerations regarding the maintenance of Master Fund portfolio securities and cash with non-U.S. sub-custodians and securities depositories.

The foregoing risks are generally applicable to many non-U.S. markets. All of these risks tend to be exacerbated in the emerging markets.

Certain Structural Risks

“Master-Feeder” Structure

The Fund and the U.S. Fund invest all of their assets in the Master Fund, except for such assets as the Investment Manager determines are reasonably necessary or appropriate to pay any fees, expenses or other costs related to the Fund or the U.S. Fund, as the case may be, or implement any currency hedging arrangements. In the future, there may be other entities which invest in the Master Fund. The co-investment by different funds in the Master Fund creates “adjacency risk” for the Fund. One or more of the funds invested in the Master Fund may be required to redeem all or substantially all of its investment in the Master Fund on short notice — perhaps for reasons unrelated to the performance of the Master Fund (for example, an unusually high level of investor redemptions from such investing entity). These redemptions, which may be made at a time when the Fund itself cannot also redeem from the Master Fund, can disrupt the Master Fund's portfolio, resulting in material losses for the Fund, and/or cause the Master Fund to postpone redemptions, forcing the Fund to take the same action with respect to its investors.

Contingent Liabilities

From time to time the Master Fund may incur contingent liabilities in connection with an investment. For example, the Master Fund may enter into agreements pursuant to which it agrees to assume responsibility for default risk presented by a third party, or may, on the other hand, enter into agreements through which third parties offer default protection to the Master Fund.

The outcome of contingent liabilities is typically uncertain, both as to timing and amount. Contingent liabilities may result in actual costs to the Master Fund long after the events giving rise to such contingencies arose, and at a time when the investor population of the Master Fund has changed materially from what it was at the time of such events. Furthermore, the amount of the liability ultimately incurred may far exceed the corresponding contingency reserves established from time to time in the past. On the other hand, certain contingent liabilities — for example, reserves established under ASC 740 (as defined below) — may neither be realized nor resolved until the Master Fund itself

is dissolved, and most of the Shareholders whose shareholdings were reduced by reserves created to cover such contingencies have redeemed.

Counterparty and Settlement Risk

Institutions, such as brokerage firms, banks and broker-dealers, generally have custody of the Fund's portfolio assets and may hold such assets in "street name." The Master Fund is subject to the risk that these firms and other brokers, counterparties or clearinghouses with which the Master Fund deals may default on their obligations to the Master Fund. Any default by any of such parties could result in material losses to the Master Fund. Bankruptcy or fraud at one of these institutions could also impair the operational capabilities or the capital position of the Master Fund. In addition, securities and other assets deposited with custodians or brokers may not be clearly identified as being assets of the Master Fund, causing the Master Fund to be exposed to a credit risk with regard to such parties. The Master Fund generally will only be an unsecured creditor of its trading counterparties in the event of bankruptcy or administration of such counterparties. In some jurisdictions, the Master Fund may also only be an unsecured creditor of its brokers in the event of bankruptcy or administration of such brokers. The Master Fund attempts to limit its brokerage and custody transactions to well-capitalized and established banks and brokerage firms in an effort to mitigate such risks, but the collapse in 2008 of the seemingly well-capitalized and established Bear Stearns and Lehman Brothers demonstrates the limits on the effectiveness of this approach in avoiding counterparty losses.

The Master Fund may effect transactions in OTC or "interdealer" markets. The participants in such markets are typically not subject to the same level of credit evaluation and regulatory oversight as are members of "exchange-based" markets. This exposes the Master Fund to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Master Fund to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Master Fund has concentrated its transactions with a single or small group of counterparties. The Master Fund is not restricted from dealing with any particular counterparty or in the size of the exposure which the Master Fund may provide to a given counterparty. The inability to make complete and "foolproof" evaluations of the financial capabilities of the Master Fund's counterparties and the absence of a regulated market to facilitate settlement increases the risk to the Master Fund.

While Dodd-Frank was intended to bring more stability and lower counterparty risk to the derivatives markets by requiring central clearing of certain standardized derivatives trades, not all of the Master Fund's trades will be subject to a clearing requirement because the trades are grandfathered or because they are bespoke, or because they are within a class that is not currently subject to mandatory clearing. Furthermore, it is still uncertain whether Dodd-Frank has been effective in reducing counterparty risk or if such risk may actually increase as a result of market uncertainty, mutuality of loss to clearinghouse members, or other reasons.

Risk of Loss Due to the Bankruptcy or Failure of Market Participants

The Master Fund is subject to the risk of the insolvency of its counterparties (such as broker-dealers, commodity brokers, banks or other financial institutions, exchanges or clearinghouses).

The Master Fund's assets could be lost or impounded during a counterparty's bankruptcy or insolvency proceedings and a substantial portion or all of the Master Fund's assets may become

unavailable to it either permanently or for a matter of years. Were any such bankruptcy or insolvency to occur, the Investment Manager might decide to liquidate an investment, suspend, limit or otherwise alter trading, perhaps causing the Master Fund to miss significant profit opportunities and/or to postpone an Effective Date. Even if the Master Fund were not to lose any of its assets on deposit with a bankrupt or insolvent counterparty, the disruption of the Master Fund's trading resulting from such counterparty's inability to continue to function in such capacity could result in material losses to the Fund. Open positions held by the Master Fund may not be closed out merely because the Master Fund's counterparty is unable to execute transactions, and may result in substantial losses which the Master Fund is powerless to prevent.

There are increased risks in dealing with offshore brokers and unregulated trading counterparties, including the risk that assets may not benefit from the protection afforded to "customer funds" deposited with regulated brokers and dealers. The Master Fund may be required to post margin for its trading activities with counterparties who are not required to segregate customer funds. In the case of a counterparty's bankruptcy or inability to satisfy substantial deficiencies in other customer accounts, the Master Fund may recover, even in respect of property specifically traceable to it, only a pro rata share of all property available for distribution to all of such counterparty's customers.

Custody Risk

The Master Fund, the Prime Brokers and other primary custodians may appoint sub-custodians in certain non-U.S. jurisdictions to hold the assets of the Master Fund. The Master Fund's primary custodians may not be responsible for cash or assets held by sub-custodians in certain non-U.S. jurisdictions, or for any losses suffered by the Master Fund as a result of the misconduct, bankruptcy or insolvency of any such sub-custodian. The Master Fund may therefore have potential exposure on the default of any sub-custodian and, as a result, many of the protections which would normally be provided to the Master Fund by a custodian will not be available to the Master Fund.

Custody services in certain non-U.S. jurisdictions remain undeveloped and, accordingly, there is transaction and custody risk of dealing in certain non-U.S. jurisdictions. Given the undeveloped state of the regulation of custodial activities and custodian bankruptcies in certain non-U.S. jurisdictions, the ability of the Master Fund to recover assets held by a sub-custodian in the event of such sub-custodian's bankruptcy would be in doubt. Even where a custodian, including a registered broker-dealer, is located and regulated in the United States, U.S. protections and regulations may be insufficient, and the Master Fund unable to recover its assets — at least on a timely basis.

The Master Fund may change its brokerage and custodial arrangements without prior notice to, and without the consent of, Shareholders.

Liquidating Portfolios

Irrespective of the success or failure of the Investment Manager's strategies, Shareholders' severely restricted ability to redeem from the Fund materially increases the risk of an investment in the Shares by making it impossible for Shareholders to limit losses or recognize profits on their Shares because it is not possible to make redemptions in order to recognize profits or mitigate losses before such profits may have been eliminated or such losses significantly accelerated. Investors must recognize that traditional redemptions from the Fund are not permitted—instead, Shareholders may only elect to Convert their Shares to Class L Shares. The Liquidating Portfolio mechanic for processing redemptions means that Conversions do not realize gains or curtail losses; Converting

Shareholders remain subject to all the risks of the performance of the Liquidating Portfolio in which they are invested as of such Conversion Date.

The Liquidating Portfolios will remain part of the Master Fund. Because of the potentially materially different composition of the different Liquidating Portfolios both as compared to each other and as compared to the General Portfolio, a Shareholder will be subject to the “cross-collateralization” or “contagion” risk of having the assets of the General Portfolio or a Liquidating Portfolio in which such Shareholder participates be depleted to pay the obligations of the General Portfolio or a Liquidating Portfolio in which such Shareholder does not participate.

The earliest a Shareholder may submit a Conversion Request for Class F Shares is for the Conversion Date occurring twenty-four (24) months after the relevant Capital Commitment Date. Furthermore, Liquidation Proceeds will generally be distributed over a three-year period after the applicable Conversion Date for which a Shareholder submits a Conversion Request. Since a Conversion Date only occurs once a year, a Shareholder holding Class F Shares may not receive Liquidation Proceeds with respect to its investment for five years or more after its Capital Commitment.

As Liquidating Portfolios generally will not make any new investments, they will necessarily become increasingly concentrated as they liquidate investments over time. This concentration could lead to losses.

In-Kind Distributions

The Investment Manager generally expects to make distribution payments in cash and does not expect to pay Liquidation Proceeds in kind in the ordinary course. However, a Shareholder may, in the discretion of the Investment Manager, in consultation with the Directors, receive from the Master Fund securities in lieu of, or in combination with, cash. The Investment Manager will notify the receiving Shareholder prior to making an in-kind distribution of Liquidation Proceeds, and the receiving Shareholder will have the option to instruct the Investment Manager to instead liquidate such securities on the receiving Shareholder’s behalf and distribute cash proceeds to the receiving Shareholder (after reduction for such receiving Shareholder’s share of liquidation expenses and commissions). Due to market conditions at the time of the liquidation, such liquidation may not occur at the best possible price for the securities. Securities that are liquidated may be liquidated on multiple dates due to market conditions. Such proceeds may be distributed directly or indirectly through a distribution of interests in one or more special purpose vehicles holding investments owned by the Master Fund or participations therein and such receiving Shareholder may continue to be at risk of the Fund’s business (including its credit risk) until all such investments are sold. Such special purpose vehicles may prohibit redemptions, may continue to be subject to the Management Fee and Incentive Allocation (or comparable charges), and may be subject to such other terms as the Investment Manager may determine in its sole discretion. The value of proceeds distributed in-kind may increase or decrease before they can be sold either by the receiving Shareholder, if received directly, or by the Investment Manager, if held through a special purpose vehicle. In either case, the receiving Shareholder will incur transaction costs in connection with the sale of any proceeds distributed in-kind, and, in the case of interests in trading vehicles or special purpose vehicles, also a proportionate portion of the operating and other expenses borne by such vehicle. Additionally, proceeds distributed in-kind to a receiving Shareholder, either directly or indirectly, may not be readily marketable. The risk of loss and delay in liquidating these investments will be borne by the receiving Shareholder, with the result that such receiving Shareholder may ultimately receive significantly less (or no) cash than it would have received on the date of withdrawal if it had been paid in cash. Furthermore, to the

extent that a receiving Shareholder receives interests in one or more trading vehicles or special purpose vehicles, such receiving Shareholder will generally have no control over when and at what price the investment in which such vehicles have an interest are sold. In addition, payment to such receiving Shareholder of that portion of its Liquidation Proceeds attributable to investments held by one or more trading vehicles or special purpose vehicles will be delayed until such time as such vehicles elect to liquidate such investments.

Defaults by Shareholders

If a Shareholder fails to make required a subscription when called by the Investment Manager, the Fund's ability to make investments, implement its investment program or otherwise operate may be impaired. A Default by a substantial number of Shareholders would, at least temporarily, limit opportunities for investment diversification which may cause the Fund's General Portfolio to incur losses. Substantial Defaults may also require the Investment Manager to dedicate time and resources to raising replacement capital, for which the Investment Manager may not be successful. Any Shareholder who Defaults will generally be subject to certain penalties as described in this Memorandum.

Incentive Allocation Calculation

The Incentive Allocation is calculated separately with respect to each Series of Shares. If a Shareholder owns more than one Series of Shares, a Shareholder could be subject to an Incentive Allocation in respect of one or more of the Series of Shares held by such Shareholder, even though such Shareholder's overall investment in the Fund has been unprofitable.

Risk of Contagion

The Fund has the power to issue Shares in Classes or Series. The Articles provide for the manner in which the liabilities are to be attributed across the various Classes or Series (liabilities are to be attributed to the specific Class or Series in respect of which the liability was incurred). However, the Fund is a single legal entity and there is no limited recourse protection for any Class or Series. Accordingly, all of the assets of the Fund will be available to meet all of its liabilities regardless of the Class or Series to which such assets or liabilities are attributable. In practice, cross-Class or cross-Series liability is only expected to arise where liabilities referable to one Class or Series are in excess of the assets referable to such Class or Series and it is unable to meet all liabilities attributed to it. In such a case, the assets of the Fund attributable to other Classes or Series may be applied to cover such liability excess and the value of the contributing Classes or Series will be reduced as a result.

Further, while the Investment Manager intends to segregate the assets and liabilities of the General Portfolio and each Liquidating Portfolio, the Master Fund is a single legal entity and therefore the liabilities of one class or portfolio may be enforced against any other class or portfolio of the Master Fund.

"Lock-Step" Master-Feeder Fund Structure

The Fund as well as the U.S. Fund invest all of their assets in the Master Fund, except for such assets as the Investment Manager determines are reasonably necessary or appropriate to pay any fees, expenses or other costs related to the Fund or the U.S. Fund, as the case may be, or to implement any currency hedging arrangements. Neither the Fund nor the U.S. Fund engage in any direct trading. While this "lock-step" master-feeder structure has certain regulatory advantages and economies of scale, there are certain transactions in which — due to tax or other reasons — the Fund could engage

but the U.S. Fund could not, and *vice versa*. Because the Fund and the U.S. Fund do not trade independently, neither are able to engage in such transactions.

Side Letters; Differential Access to Information: Differential Business Terms

To the extent permitted by the Material Contracts and subject to Law, the Investment Manager may agree to waive or modify the application of any provision of the offering terms described in this Memorandum with respect to any Shareholder, by side letter or otherwise, without obtaining the consent of any other Shareholder. As a result of such side letters, certain Shareholders may receive additional benefits which other Shareholders will not receive. Except as required by Law, in general, the Investment Manager is not required to notify the other Shareholders of any such side letters or any of the rights and/or terms or provisions thereof, nor is the Investment Manager required to offer such additional and/or different rights and/or terms to any or all of the other Shareholders. The Investment Manager will provide the Board of Directors with full transparency into the terms of any such side letters.

The Investment Manager, the Portfolio Manager, the U.S. Fund and the Master Fund have entered into a contract with the Strategic Investors, who have a financial interest in the fees and profits earned by the Investment Manager. Further, the Strategic Investors currently have substantial investments in the U.S. Fund. The Strategic Investors do not have any equity stake in the Investment Manager nor do either have management obligations pertaining to the U.S. Fund's portfolio, although both are available to consult with the Investment Manager from time to time regarding investment strategies.

The Strategic Investors are not sponsors or promoters of the Fund or its affiliates, have no duties to the Fund or the Shareholders and will not be liable to the Fund or the Shareholders for exercising or not exercising any respective rights.

Certain Credit Exposure Risks of the Master Fund

The Fund may be exposed to the credit risks of Other Clients as a result of certain co-investment or participation arrangements. For example, a participation agreement between the Fund and an Other Client may allow the Fund to trade certain assets on behalf of an Other Client but receive settlement funding from such Other Client at a later time. Exposure to the credit risk of Other Clients poses the risk that the Fund will incur costs as a result of losses by such entities which are unrelated to the actions or trading of the Fund.

The Investment Manager has endeavored to minimize this risk by closely monitoring and limiting any such credit exposure. In the event the Master Fund trades on behalf of an Other Client pursuant to a participation or similar agreement, the Investment Manager will require prompt payment from the Other Client to the Master Fund.

Certain Regulatory and Legal Risks

Non-Disclosure of Positions

In an effort to protect the confidentiality of its positions, the Directors and the Investment Manager will not generally disclose the Fund's positions to any Shareholder, although the Directors and the Investment Manager may do so in certain limited circumstances (and will do so with respect to the Strategic Investors).

Conflicts of Interest

The Investment Manager is subject to material conflicts of interest in managing the Fund.

Risk of Litigation

In the ordinary course of business, the Fund may be subject to litigation from time to time. In addition, the Fund may accumulate substantial positions in the securities of issuers that become involved in proxy contests or other litigation. As a result of such investments, the Fund could be named as a defendant in a lawsuit or regulatory action. The outcome of such proceedings, which may materially adversely affect the value of the Fund, may be impossible to anticipate, and such proceedings may continue without resolution for long periods of time. Any litigation may consume substantial amounts of the Investment Manager's time and attention, and that time and the devotion of these resources to litigation may, at times, be disproportionate to the amounts at stake in the litigation. In addition, these proceedings could distract the Investment Manager's personnel from their investing activities and accordingly negatively affect the Fund's returns.

The Fund has given a broad indemnity to the Investment Manager against a wide range of losses relating to their activities on behalf of the Fund, provided that such activities are not Finally Determined to violate the Standard of Care.

Absence of Regulatory Oversight

The Fund is not required to, and does not intend to, register as such under the Company Act. Accordingly, the provisions of the Company Act (which require, among other things, investment companies to have a majority of disinterested directors, that their securities be held in custody and individually segregated from the securities of any other person and marked to clearly identify such securities as the property of such investment company) are not applicable to the Fund.

Registration under the Mutual Funds Law (2019 Revision) of the Cayman Islands ("**Mutual Funds Law**") does not involve a detailed examination of the merits of the Fund and the Master Fund or substantive supervision of the investment performance of the Fund and the Master Fund by the Cayman Islands government or the Authority.

Dodd-Frank can, in general, be expected to restrict liquidity and increase the costs of trading in the derivatives markets with potentially adverse effects on the Master Fund which cannot be predicted.

Notwithstanding the fact that the Fund is not registered as an "investment company," Dodd-Frank imposes burdensome reporting and recordkeeping requirements on the Master Fund.

Regulatory Actions

From time to time, certain of the Investment Manager's and/or the Fund's activities may be subject to regulatory inquiries, investigations and/or enforcement proceedings from U.S. and non-U.S. governmental agencies, regulatory bodies and securities commissions, which can be costly and occupy significant staff time and resources of the Investment Manager and/or its affiliates.

A number of alternative investment fund managers have been subject to regulatory investigations and proceedings. Such actions, even if the ultimate conclusion is that no violation has occurred, could materially adversely affect the Investment Manager and the Fund. It is impossible to

predict whether or when any such investigations or proceedings may occur, or how extensive they may be.

Possibility of Additional Government or Market Regulation

Market disruptions and the dramatic increase in the capital allocated to alternative investment strategies during recent years have led to increased governmental as well as self-regulatory scrutiny of private investment (“hedge”) funds and the “hedge fund” industry in general. Certain legislation proposing greater regulation of the industry, such as Dodd-Frank, is considered periodically by the U.S. Congress, as well as the governing bodies of foreign jurisdictions. It is impossible to predict what, if any, changes in the regulations applicable to the Fund, Master Fund, the Investment Manager, the markets in which they trade and invest or the counterparties with which they do business may be instituted in the future. Any such laws or regulations could have a material adverse impact on the profit potential of the Fund, as well as require increased transparency as to the identity of, and information regarding, the Shareholders.

Cybersecurity

As part of its business, the Investment Manager processes, stores and transmits large amounts of electronic information, including information relating to the transactions of the Master Fund and personally identifiable information of the Shareholders, and conducts significant portions of its business over electronic networks. Similarly, third party service providers of the Investment Manager, the Master Fund or the Fund, may process, store and transmit such information and electronic transactions. The Investment Manager has procedures and systems in place that it believes are reasonably designed to protect such information and prevent data loss and security breaches. However, such measures cannot provide absolute security. The techniques used to obtain unauthorized access to data, disable or degrade service, or sabotage electronic networks or systems change frequently and may be difficult to detect for long periods of time. Hardware or software acquired from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information and network security. Network connected services provided by third parties to the Investment Manager may be susceptible to compromise, leading to a breach of the Investment Manager’s electronic networks or systems. The Investment Manager’s systems, networks or facilities may be susceptible to employee error or malfeasance, government surveillance, or other security threats. On-line communications or services provided by the Investment Manager to the Shareholders may also be susceptible to compromise. Breach of the Investment Manager’s information systems may allow third parties to process unauthorized transactions on behalf of the Master Fund or the Fund or cause information relating to the transactions of the Master Fund and personally identifiable information of the Shareholders to be lost or improperly accessed, used or disclosed.

The service providers of the Investment Manager, the Master Fund and the Fund are subject to the same electronic information security threats as the Investment Manager. If a service provider fails to adopt or adhere to adequate data security policies, or in the event of a breach of its networks, information relating to the transactions of the Master Fund and personally identifiable information of the Shareholders may be lost or improperly accessed, used or disclosed.

The loss or improper access, use or disclosure of the Investment Manager’s, the Master Fund’s or the Fund’s proprietary information or systems may cause the Investment Manager, the Master Fund or the Fund to suffer, among other things, financial loss, business disruption, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing events could have a material adverse effect on the Master Fund, the Fund and the Shareholders’ investments therein.

European Union Short Selling Regulation

In March 2012, Regulation (EU) No. 236/2012 on short selling and certain aspects of credit default swaps (**the “SSR”**) came into force. The SSR applied directly across the E.U. from November 1, 2012 and imposes certain private and public disclosure obligations on all natural or legal persons, irrespective of regulatory status, located inside or outside the E.U., who have net short positions (as calculated in accordance with the SSR) in E.U.-listed shares and E.U. sovereign debt, which reach or fall below the specified thresholds.

The SSR also contains prohibitions on uncovered short sales of E.U.-listed shares and E.U. sovereign debt (a short sale is “uncovered” unless the specified conditions under the SSR are met for such short sale). In addition, the SSR prohibits uncovered positions in credit default swaps referencing E.U. sovereign debt issuers.

National regulators, and in certain circumstances the European Securities and Markets Authority, (**“ESMA”**) are able to take certain additional emergency measures (including complete bans on short-selling activities) if certain conditions are met.

The SSR may prevent the Investment Manager from fully expressing negative views in relation to E.U.-listed shares and/or E.U. sovereign debt and may also restrict the ability of the Investment Manager to hedge certain risks through E.U. sovereign credit default swaps. Accordingly, the ability of the Investment Manager to implement the investment approach and to fulfill the investment objective of the Fund may be constrained.

MiFID II

The E.U. Markets in Financial Instruments Directive (Directive 2014/65/EU) and Markets in Financial Instruments Regulation (Regulation (EU) No 600/2014) (**together, “MiFID II”**) governs the provision of investment services and activities in relation to, as well as the organized trading of, financial instruments such as shares, bonds, units in collective investment schemes and derivatives. MiFID II was required to be implemented in E.U. member states from January 3, 2018. Although the Fund is not organized in the E.U., and is not authorized or regulated by any E.U. member state financial services regulator, certain aspects of MiFID II may have an impact on the Fund.

MiFID II imposes certain restrictions as to the trading of shares and derivatives, which could apply to transactions made by or with the Master Fund. Subject to certain conditions and exceptions, the Master Fund may be unable to trade shares or derivatives with affected counterparties other than as provided by MiFID II. MiFID II also applies position limits to the size of a net position that a person can hold at all times in commodity derivatives traded on E.U. trading venues and in “economically equivalent” OTC derivatives.

More generally, E.U. regulated firms that have trading relationships with the Master Fund may be obliged by MiFID II to impose certain requirements on the Fund, or they may seek to do so contractually, with a view to satisfying their own compliance obligations. It is difficult to predict the full impact of MiFID II on the Fund. Prospective investors should also be aware that there may be costs (whether direct or indirect) of compliance with MiFID II.

European Market Infrastructure Regulation

On August 16, 2012, European Market Infrastructure Regulation (EU No. 648/2012) entered into force (**“EMIR”**). EMIR introduced certain requirements in respect of derivative contracts, which

apply to varying degrees to entities established in the E.U. As such, where the Master Fund transacts with E.U. counterparties, they will likely require the transaction to be EMIR compliant.

Broadly, EMIR's requirements in respect of derivative contracts are (i) mandatory clearing of OTC derivative contracts declared subject to the clearing obligation; (ii) risk mitigation techniques in respect of uncleared OTC derivative contracts, including the mandatory margining of uncleared OTC derivative contracts; and (iii) reporting and record-keeping requirements in respect of all derivative contracts. The extent to which the above-mentioned requirements apply is dependent on the classification of E.U. counterparties such as E.U.-authorized investment firms, credit institutions, insurance companies, Undertakings for Collective Investment in Transferable Securities Directives, referred to as "UCITS," and alternative investment funds managed by E.U.-authorized alternative investment fund managers ("FCs") and non-financial counterparties, being E.U. entities which are not financial counterparties ("NFCs"). The classification will determine whether the E.U. counterparty is an FC, NFC above EMIR's prescribed clearing threshold ("NFC+s") or NFC below EMIR's prescribed clearing threshold ("NFC-s") and the classification of the Fund were it to be established in the E.U.

It is difficult to predict the full impact of these regulatory developments on the Fund. Prospective investors should be aware that the regulatory changes arising from EMIR and MiFID II may in due course significantly raise the costs of entering into derivative contracts and may adversely affect the Fund's ability to engage in transactions in derivatives.

Business and Regulatory Risks of Hedge Funds

Legal, tax and regulatory developments may adversely affect the Fund. The markets in which the Master Fund trades are subject to comprehensive statutes, regulations and margin requirements enforced by the SEC, the CFTC, ESMA, EMIR, and other regulators and self-regulatory organizations. Securities and futures exchanges are also authorized to take extraordinary actions in the event of market emergencies. The regulation of the markets and market participants (such as the Master Fund) is an evolving area of law and is subject to modification by governmental and judicial actions. The regulatory environment for private funds is evolving in the direction of imposing materially greater restrictions on their activities, and changes in the regulation of private funds and their trading activities may adversely affect the Fund.

Tax Audits

The Master Fund or the Fund may be audited by U.S. federal, state or other tax authorities. An income tax audit may result in an increased tax liability of the Fund, including with respect to years when an investor was not a Shareholder of the Fund, which could reduce the Net Asset Value of the Master Fund or the Net Asset Value of the Fund and affect the return of all Shareholders.

Accounting for Uncertainty in Income Taxes

Accounting Standards Codification Topic No. 740, "Income Taxes" (in part formerly known as "FIN 48") ("ASC 740"), provides guidance on the recognition of uncertain tax positions. ASC 740 prescribes the minimum recognition threshold that a tax position is required to meet before being recognized in an entity's financial statements. It also provides guidance on recognition, measurement, classification and interest and penalties with respect to tax positions. A prospective investor should be aware that, among other things, ASC 740 could have a material adverse effect on the periodic calculations of the Net Asset Value of the Master Fund or the Net Asset Value of the Fund, including

reducing the Net Asset Value of the Master Fund or the Net Asset Value of the Fund to reflect reserves for income or other taxes. This could cause benefits or detriments to certain investors, depending upon the timing of their entry and exit from the Fund.

Limits of Disclosure

The Investment Manager's strategies are proprietary and confidential. Any description of such strategies, or the risks involved, cannot purport to be complete or comprehensive. Prospective Shareholders must recognize that in investing in the Fund, they are entrusting their capital to the discretionary and subjective management of the Investment Manager on the basis of disclosures which are necessarily subject to material limitations.

No Separate Counsel

Sidley Austin LLP served as U.S. legal counsel to the Investment Manager in connection with the organization of the Fund and the preparation of this Memorandum. Sidley Austin LLP does not represent the Fund. Sidley Austin LLP may continue to serve in such capacity in the future, but has not assumed any obligation to update this Memorandum. Sidley Austin LLP may advise the Investment Manager in matters relating to the operation of the Fund — including, without limitation, on matters relating to its fiduciary obligations to Shareholders — on an ongoing basis. Sidley Austin LLP does not represent and has not represented the prospective Shareholders or the Fund in the course of the organization of the Fund, the negotiation of its business terms, the offering of the Shares or in respect of its ongoing operations.

Item 9 - Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the adviser or the integrity of adviser's management.

The Adviser and its personnel have no legal or disciplinary events to report.

Item 10 - Other Financial Industry Activities and Affiliations

- A. The Adviser is not registered, and does not have an application pending to register, as a broker-dealer or registered representative of a broker-dealer. Currently, no employees of the Adviser are registered representatives of a broker-dealer.

Portfolio company investments of pooled investment vehicle Clients include investment advisers operated by management teams which are independent of the Adviser. Though certain supervised persons of Axar sit on the boards of such portfolio companies, the Adviser does not believe that these portfolio companies are material to the Adviser's business or its Clients (other than as portfolio companies) nor does the Adviser believe they create a material conflict of interest with respect to its Clients. In addition, the Adviser has implemented information sharing policies with respect to such portfolio companies.

- B. Neither the Adviser nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.
- C. The Funds are affiliates of the Adviser. Additionally, Axar Capital Group LLC is an affiliate of the Adviser. Since Axar Capital Group LLC is entitled to receive a share of the Performance Allocation from the Funds, this may create an incentive for the Adviser to make investments that are riskier or more speculative than would be the case if such arrangement was not in effect. However, as noted in Item 11, the Adviser has adopted a written Code of Ethics that contains policies and procedures to address conflicts of interest. Under such policies and procedures, the Adviser is required to make investment decisions for its Clients in a manner that is consistent with its fiduciary duties to its Clients.

Axar Real Estate Management, LP, a subsidiary of the Adviser, provides management services to a private real estate investment partnership for sophisticated, qualified investors (the "Real Estate Partnership"). The Real Estate Partnership pursues investment strategies and objectives which are separate and distinct from those of the Adviser's Clients.

- D. The Adviser does not recommend or select other investment advisers for its Clients.

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

- A. The Adviser has adopted a written Code of Ethics designed to address and avoid potential conflicts of interest as required under Rule 204A-1 of the Advisers Act (the “Code”). The Code sets forth a standard of business conduct and compliance with federal securities laws by all of the Adviser's employees. The Code contains policies and procedures that ensure that all personal securities trading by employees of the Adviser is conducted in such a manner as to avoid actual or potential conflicts of interest or any abuse of an individual's position of trust and responsibility. The Adviser prohibits personal trading on most single name securities including any right to acquire such security, such as puts, calls, other options, rights in such securities, and other such instruments; requires pre-clearance of personal trades in certain circumstances, including purchases of a single name security listed on the S&P 500, an IPO, or a new private placement; requires periodic reporting of employees' personal securities transactions and holdings; and requires prompt internal reporting of Code violations.

The Adviser has established procedures to prevent the abuse of material, non-public information, which includes procedures for, among other things, the use and maintenance of restricted trading lists. Because the structure of the Adviser would make information barriers impractical, the firm has not imposed information barriers to restrict the internal flow of possible material, non-public information. Thus, all professionals are deemed to be in receipt of material, non-public information, in all instances where any professional of the Adviser has received material, non-public information, and, therefore, may not trade on the basis of that information.

The Adviser's Code of Ethics is available, upon request, to any Client or prospective Client as well as any Fund investor or qualified prospective Fund investor.

Additionally, the Adviser and its related entities engage in a broad range of activities. In the ordinary course of conducting its activities, the interests of a Client may, from time to time conflict with the interests of the Adviser, other Clients or their respective affiliates. Certain of these conflicts of interest, as well a description of how the Adviser addresses such conflicts of interest, can be found below.

In the case of all conflicts of interest, the Adviser's determination as to which factors are relevant, and the resolution of such conflicts, will be made using the Adviser's best judgment, but in its sole discretion. In resolving conflicts, the Adviser will consider various factors, including the interests of the applicable Clients with respect to the immediate issue and/or with respect to their longer-term courses of dealing. Certain procedures for resolving specific conflicts of interest are set forth below. When conflicts arise, the following factors generally mitigate, but will not eliminate, conflicts of interest:

- (1) A Client will not make an investment unless the Adviser believes that such investment is an appropriate investment considered solely from the viewpoint of such Client;
- (2) Many important conflicts of interest will generally be resolved by set procedures, restrictions or other provisions contained in the Governing Documents for the Clients;
- (4) Where the Adviser deems appropriate, unaffiliated third parties may be used to help resolve conflicts, such as the use of an investment banker to

- opine as to the fairness of a purchase or sale price; and
- (5) Prior to subscribing for interests in a Client, each investor receives information relating to significant potential conflicts of interest arising from the proposed activities of the Client.

Specifically, with respect to conflicts of interest that may arise in connection with its investment activities, the Adviser has adopted written policies and procedures relating to the allocation of investment opportunities, and will make allocation determinations consistently with Client Governing Documents and such policies. The Adviser will not allocate investment opportunities based, in whole or in part, on (i) the relative fee structure or the amount of fees paid by any Client or (ii) the profitability of any Client.

Additionally, employees serve on the boards of Client portfolio companies. In such capacity the employees who serve as directors are expected to receive director's fees that are retained in whole or in part by the relevant employee. Serving in such capacity and receiving such compensation gives rise to conflicts to the extent that an employee's fiduciary duties to a portfolio company as a director conflicts with the interests of the Adviser's Clients. As the Clients will generally be significant investors in such companies, it is expected that such interests will generally be aligned. In addition, because the employee retains the director's fees, the employee may have an incentive to support the interest of the portfolio company over the interests of the Client.

- B. The Adviser's Principal is a member of the Funds. Therefore, the Adviser may be deemed to recommend to Clients or buy or sell for Clients, investments in which the Adviser has a material financial interest.

Additionally, the Adviser and its principals, members, directors, officers and employees (each an "Axar Party" and collectively, the "Axar Parties") may conduct other businesses including businesses within the securities or private investment fund industry. Any Axar Party may also serve as investment manager to other entities, accounts or investors and may conduct investment activities for their own accounts. For instance, and as discussed in Item 10, Axar Real Estate Management, LP, a subsidiary of the Adviser, provides management services to a private real estate investment partnership. However, as discussed above, the Adviser has established procedures to address potential conflicts of interests which may arise in its business, including such outside activities.

- C. The Adviser's Principal has invested a significant portion of his liquid net worth in the Funds and other accounts advised by the Adviser, but is not obligated to do so. Such amounts may be invested pro rata with the members of the Funds in all of the Funds' portfolio investments. In the view of the Principal, this aligns the interests of the Principal with the Funds and their investors and does not result in any conflicts of interest between the Adviser and the Funds.
- D. As provided by the Code, the Adviser may not recommend investments to Clients, or make investments for Clients, at or about the same time that the Adviser or its related persons buy or sell the same investments for their own account.

Item 12 - Brokerage Practices

- A. The Adviser has complete discretion to determine, subject to each Client's disclosed investment objectives, policies and strategies, the securities to be purchased or sold and in what amounts, the broker-dealers and other financial intermediaries to use in effecting the transactions for Clients, and the commission rates to be paid for such transactions.

Brokerage. The Adviser selects the broker-dealers and other financial intermediaries used to effect transactions on behalf of its Clients. The Adviser seeks to obtain "best execution" from these broker-dealers based on a variety of factors. In selecting broker-dealers to effect portfolio transactions, the Adviser may cause Clients to enter into arrangements pursuant to which the Clients pay transaction costs in an amount greater than would be incurred if another broker-dealer were used. The Adviser is not required to solicit competitive bids or seek the lowest available commission or transaction costs. The transactions executed by Clients may be cleared through, and the Clients' investment instruments may be held by, a number of financial institutions the Adviser selects on terms negotiated with each such financial institution individually. Subject to the Adviser's agreement with each Client, the Adviser generally will use a variety of financial institutions both to take advantage of differing expertise and capabilities and to avoid, due to credit concerns, having all investment instruments concentrated at one firm. The Adviser does not consider the receipt of Client referrals when selecting broker-dealers to execute transactions.

Generally, the Adviser does not permit Clients to direct brokerage to a specified broker-dealer and all brokerage transactions will be executed through the broker-dealers selected by the Adviser. Nevertheless, certain Clients may require the Adviser to direct the Adviser to a particular broker. Such Clients must note that such directed brokerage arrangements limit the Adviser's ability to seek best execution and participate in aggregated trades (as described below) and therefore may result in increased cost for such Clients.

Soft Dollars. A portion of the commissions generated on Clients' brokerage transactions may generate "soft dollar" credits that the Adviser is authorized to use to pay for research and other non-research related services and products used by the Adviser or its affiliates. Although the Adviser will use the research and services in making investment decisions for the applicable Clients, the Adviser may use such research or services for other Clients and the applicable Clients will generally pay more than the lowest available commissions for execution of these transactions. The Adviser may also enter into "soft dollar" arrangements to cover Client expenses or costs and expenses of the Adviser to the extent such arrangements are permitted by law.

The ability to utilize soft dollar credits may give the Adviser an incentive to select brokers or dealers for Client transactions, or to negotiate commission rates or other execution terms, in a manner that takes into account the soft dollar benefits received by the Adviser rather than giving exclusive consideration to the interests of the Clients. In the event that the Adviser elects to use soft dollars, it intends to limit such use to services that fall within the safe harbor afforded by Section 28(e) of the Securities Exchange Act of 1934, as amended, or such services that are otherwise reasonably related to the investment decision-making process.

The term "soft dollars" refers to the receipt by an investment adviser of products and services provided by brokers, without any cash payment by the investment adviser, based on the volume of revenues generated from brokerage commissions for transactions executed for clients of the

investment adviser. The products and services available from brokers include both internally generated items (such as research reports prepared by employees of the broker) as well as items acquired by the broker from third parties (such as quotation equipment).

- B. In general (and when applicable), the Adviser attempts to aggregate multiple orders for the purchase or sale of the same instrument into block transactions, subject to the overall obligation to achieve best price and execution for its Clients.

Item 13 - Review of Accounts

- A. The Principal of the Adviser is responsible for reviewing Client investment portfolios on a daily basis relating to, among other factors, position sizes; exposure levels; margin requirements; and investment strategy compliance.
- B. See Item 13.A. above.
- C. The Adviser provides Fund investors with audited annual financial statements, periodic reports and other communications, and all tax information relating to their investments in the Funds necessary for U.S. federal income tax purposes.

Item 14 - Client Referrals and Other Compensation

- A. The Adviser does not receive any economic benefit, including sales awards or prizes, from any third party for providing advisory services to the Funds.
- B. The Adviser may enter into agreements with persons who refer potential investors for the Funds to the Adviser. For their referral services, these persons may receive compensation from the Adviser in the form of a percentage of the Management Fee and/or Performance Allocation that the Adviser and its affiliates receive from the Funds with respect to the referred investors. All solicitation arrangements that the Adviser may enter into will be designed to be in compliance with Rule 206(4)-3 under the Advisers Act and any similar state regulations. The Funds and their underlying investors are not responsible for any of the fees paid to the referring persons.

Item 15 - Custody

The Adviser is deemed, under Rule 206(4)-2 of the Advisers Act, to have custody of the assets of the Funds by virtue of the common control of the Adviser and the General Partner of the Funds. All assets and securities of the Funds are held by qualified custodians. As noted in Item 13 above, Fund investors receive annual financial statements audited by an independent public accounting firm. Fund investors are urged to carefully review these statements.

The Adviser does not have custody of separately managed account client assets.

Item 16 - Investment Discretion

The Adviser exercises discretion in managing the investments of its Clients based on the applicable Clients' investment objectives, policies, and strategies disclosed in its Offering Documents.

The Adviser generally contractually assumes discretionary authority over the assets of its Clients under investment management agreements entered into among the Adviser and the Clients.

Item 17 - Voting Client Securities

The Adviser follows a proxy voting policy to ensure that proxies the firm votes, on behalf of each Client, are voted to further the best interest of that Client. The policy establishes a mechanism to address any conflicts of interests between the Adviser and its Clients. Further, the policy establishes how Clients' underlying investors may obtain information on how the proxies have been voted.

The Adviser determines how to vote after studying the proxy materials and any other materials that may be necessary or beneficial to voting. The Adviser votes proxies in a manner that it believes reasonably furthers the best interests of its Clients and their investors and is consistent with the investment philosophy as set forth in the relevant Clients Governing Documents.

If a proxy vote creates a material conflict between the interests of the Adviser and a Client, the Adviser will resolve the conflict before voting the proxies. The Adviser will take steps designed to ensure that a decision to vote the proxy was based on the Adviser's determination of the Client's best interest.

The Adviser maintains records of (i) all proxy votes that are made on behalf of its Clients; (ii) all written requests from each Client's underlying investors regarding voting history; and (iii) all responses (written and oral) to investors' requests. Such records are available to each Client's underlying investors upon request.

Item 18 - Financial Information

- A. The Adviser does not require or solicit prepayment of advisory fees six months or more in advance.
- B. The Adviser does not believe it has any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to the Funds.
- C. The Adviser has not been the subject of a bankruptcy petition at any time during the past ten years.