

# **D. E. Shaw Investment Management, L.L.C.**

## **Form ADV Part 2A: Brochure**

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This brochure provides information about the qualifications and business practices of D. E. Shaw Investment Management, L.L.C. (the “Adviser” or “DESIM”), an investment adviser registered with the United States Securities and Exchange Commission (the “SEC”) under the U.S. Investment Advisers Act of 1940, as amended (the “Advisers Act”). Such registration does not imply a certain level of skill or training. If you have any questions about the contents of this brochure, please contact us at +1 (212) 478-0000. The information in this brochure has not been approved or verified by the SEC or by any state securities authority.

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

This brochure is for informational purposes only. It does not convey an offer of any type and is not intended to be, and should not be construed as, an offer to sell, or the solicitation of an offer to buy, any interest in any entity, investment, or investment vehicle. The delivery of this brochure does not create or imply a client relationship between you and the Adviser or any of its affiliates.

### **Item 2: Material Changes**

This brochure contains material changes since its most recent annual update on March 31, 2021. A summary of such material changes is as follows:

- Item 8. The discussion under the heading “Certain Risk Factors” was updated, including to clarify and expand on certain commercial risks.
- Item 10 (Certain Conflicts of Interest). The discussion under the heading “Certain Conflicts of Interest” was updated.

### **Item 3: Table of Contents**

Item 2:	Material Changes .....	1
Item 3:	Table of Contents .....	2
Item 4:	Advisory Business .....	3
Item 5:	Fees and Compensation .....	3
Item 6:	Performance-Based Fees and Side-by-Side Management.....	7
Item 7:	Types of Clients .....	8
Item 8:	Methods of Analysis, Investment Strategies, and Risk of Loss .....	8
Item 9:	Disciplinary Information.....	57
Item 10:	Other Financial Industry Activities and Affiliations.....	57
Item 11:	Code of Ethics, Participation or Interest in Clients' Transactions, and Personal Trading .....	70
Item 12:	Brokerage Practices .....	71
Item 13:	Review of Accounts.....	74
Item 14:	Client Referrals and Other Compensation .....	75
Item 15:	Custody.....	75
Item 16:	Investment Discretion .....	75
Item 17:	Voting Client Securities .....	75
Item 18:	Financial Information .....	76

## **Item 4:      Advisory Business**

DESIM is a Delaware limited liability company and an investment adviser registered with and regulated by the SEC under the Advisers Act. DESIM serves as an investment adviser to certain clients through separately managed accounts and as the managing member or manager of, and/or the investment adviser to, certain affiliated collective investment vehicles and other entities in the D. E. Shaw group (such investment vehicles and other entities, collectively, the “Funds”). With respect to certain Funds, the Adviser provides investment advice to such Funds in its capacity as their managing member or manager. (As used in this brochure, the term “clients” refers both to the Adviser’s separately managed account clients and to the Funds, as applicable.)

The investor base of the Funds comprises institutions and other sophisticated investors, including high-net-worth individuals. These investors must meet certain minimum financial requirements (*e.g.*, an institution generally must own and invest on a discretionary basis at least \$25 million of certain investments), among other requirements, to be eligible to participate in the Funds, which are structured as private investment companies that are exempt from registration as investment companies under the U.S. Investment Company Act of 1940, as amended (the “Investment Company Act”).

The D. E. Shaw group was founded in 1988. DESIM was formed in and has been a registered investment adviser since 2005. The D. E. Shaw group invests globally in both public and private markets and uses a broad array of strategies, including systematic strategies based on quantitative and computational techniques, discretionary strategies based primarily on human analysis, and hybrid strategies that combine systematic and discretionary approaches to investing.

D. E. Shaw & Co., L.P. (“DESCO LP”) is the managing member and sole owner of DESIM. DESCO LP’s principal owner is Dr. David Elliot Shaw. Other entities and individuals hold minority stakes in DESCO LP.

DESIM bases its advice to clients on the investment objectives and restrictions (if any) set forth in such clients’ applicable investment management agreements, offering memoranda, organizational documents, and/or subscription agreements, as the case may be (each, a “Governing Document,” and collectively, the “Governing Documents”).

DESIM managed approximately \$22,647,400,000 in investment capital on a discretionary basis as of January 1, 2022.

## **Item 5:      Fees and Compensation**

DESIM acts as an investment adviser on a discretionary basis to managed accounts and to Funds. DESIM’s compensation for such services comprises an asset-based fee (a “Management Fee”) and in some cases also includes a performance-based fee, charge, or allocation (each, a “Performance Charge”). The definitive terms of such compensation, including whether DESIM deducts or invoices for fees, are generally set forth in the applicable Governing Document. Management Fees generally are paid monthly or quarterly in arrears, unless otherwise set forth in the applicable Governing Document.

DESIM may enter into Performance Charge arrangements with clients that fall within the definition of a “qualified client” pursuant to Rule 205-3 under the Advisers Act or as permitted under Section 205(b) of the Advisers Act. Performance Charges generally are paid in arrears but, where applicable, may be paid at the time of termination of the advisory agreement (with respect to a managed account) or at the time of a withdrawal or distribution of capital (with respect to a Fund), in each case unless otherwise set forth in the applicable Governing Document.

The fee schedule for managed account clients that deploy DESIM’s “Active Equity Strategies” (as outlined in “Methods of Analysis and Investment Strategies” in Item 8 below) typically comprises a Management Fee that ranges from 24 basis points annually to 105 basis points annually, depending on a client’s account size, expected risk level, benchmark index, and investment approach.

The Management Fee is for investment management services only; third-party custodial fees and brokerage commissions and other fees are not included.

Fund clients that deploy DESIM’s “Active Equity Strategies” (as outlined in “Methods of Analysis and Investment Strategies” in Item 8) generally have two series of regular member interests. One series is assessed a Management Fee that generally is comparable to the Management Fee applied to managed accounts utilizing the corresponding investment strategy. The other series is assessed a reduced Management Fee as well as a Performance Charge, typically equal to 20% of the Fund’s outperformance of the stated benchmark for the relevant investment strategy.

Fund clients that deploy strategies on DESIM’s “Orienteer Platform” (as outlined in “Methods of Analysis and Investment Strategies” in Item 8 below) have only a single series of regular member interests; such series is assessed a Management Fee that ranges from 78 basis points annually to 117 basis points annually.

In general, if a Management Fee has been paid in full in advance for a period in which the advisory contract with the relevant client has been terminated, or, with respect to a Fund, for the period in which an investor has withdrawn its investment in such Fund, the applicable portion of such Management Fee paid relating to the portion of the period after such termination or withdrawal will be returned or credited to the client or to the withdrawing or redeeming Fund investor, subject to the terms of the applicable Governing Document; however, Governing Documents related to Funds typically do not permit such intraperiod terminations or withdrawals. A client may terminate an advisory contract before its expiration date by complying with the provisions regarding termination provided in the advisory contract, including without limitation by sending a notice of termination to the address designated under the advisory contract.

The Adviser negotiates fees and other terms in certain cases. From time to time, the Adviser has entered into agreements with certain underlying investors in the Funds that provide for terms of investment that are more favorable than the terms set forth in the applicable Governing Document. Such terms may include, among other things, the waiver, reduction, or rebate of Management Fees, Fund expenses, and/or Performance Charges; the provision of additional information or reports; more favorable transfer and/or withdrawal rights; provisions regarding indemnification and/or the jurisdiction and choice of law for disputes regarding the investment; provisions regarding the investor’s and/or the Adviser’s confidentiality obligations; and “most-favored-nation” provisions covering one or more terms or

rights. No such agreement necessarily entitles any other Fund investor to the same terms of investment as offered in such agreement.

Clients incur expenses in connection with custodial or brokerage services outlined in Item 12. In addition, each client incurs such operating costs and expenses (collectively, “operating costs”), if any, as are set forth in the applicable Governing Document. DESIM’s separately managed account clients generally are not charged any operating costs relating to services provided by DESIM. For certain Funds, examples of operating costs include, without limitation:

- (a) organizational costs of a Fund, generally subject to a cap;
- (b) costs related to actual or potential investments of a Fund (such as costs related to the acquisition, holding, monitoring, maintenance, or disposition of any investment; costs related to any subsidiary of a Fund; commissions and other transaction costs; brokerage, exchange, clearing, and other similar costs; financing costs; costs related to data and information services; due diligence and research costs; travel costs; and costs for accounting, consulting, legal, tax, or other services or technology);
- (c) costs related to the general operations of a Fund (such as costs related to administration; costs related to accounting, audit, consulting, financial operations, legal, reporting, tax, post-trade support, treasury, valuation, independent agent, and other services and technology; costs related to data and information services; costs related to the ongoing offering of Fund interests; costs related to amendments or other modifications to any Governing Document or other document relating to a Fund; insurance costs; costs related to exchange memberships; costs related to regulatory compliance, including without limitation regulatory filings, registrations, licenses, inquiries, and examinations; costs associated with the formation and operation of subsidiaries of a Fund; and costs associated with any restructuring, liquidation, winding up, or dissolution of a Fund);
- (d) taxes, duties, or other related costs (other than amounts treated as distributions);
- (e) certain other costs that may be withheld from distributions to an underlying investor in a Fund or that may be charged upon an underlying investor’s involuntary withdrawal from a Fund;
- (f) costs associated with indemnification, including without limitation any indemnification payment, or contribution by a Fund to any person, whether pursuant to a Governing Document or any other agreement;
- (g) costs associated with any actual or potential litigation, arbitration, mediation, investigation, examination, information request, or other proceeding (including without limitation proceedings involving any regulatory or self-regulatory body or any governmental or tax authority), including without limitation the amount of any judgment, settlement, fine, penalty, or other amount related to any such proceeding, except in each case to the extent that such costs are treated as distributions; and
- (h) actual or estimated costs of, and reserves for, any expense, liability, or obligation incurred in connection with the operations of a Fund.

Operating costs may include costs in addition to or different from those outlined above. Operating costs may be fixed or variable. Variable costs may be determined by reference to, among other things, a Fund's usage of the applicable technology or service (*e.g.*, commissions paid per trade), the aggregate assets of the applicable Fund (*e.g.*, an asset-based administration or management fee), and/or the costs incurred by the applicable service provider (*e.g.*, the reimbursement of such service provider's incidental expenses).

The Adviser will make all computations, determinations, and designations regarding operating costs, including whether a particular item constitutes an operating cost; any adjustment to operating costs; the allocation of any particular operating cost to one or more clients or categories of client interests; and the allocation of operating costs (or elements of particular operating costs) between the Adviser's clients and the Adviser and/or its affiliates. The allocation of operating costs (or their elements) between the Adviser's clients and the Adviser and/or its affiliates, as well as between clients or categories of client interests, will be determined by the Adviser and/or its affiliates using any method determined by such persons, including without limitation any objective criteria, any subjective criteria, or any combination of the foregoing selected by such persons (including estimates of value contribution, resource utilization, personnel utilization, capital utilization, investment strategy capacity utilization, space utilization, technology utilization, asset ownership, trading volume, revenue, headcount, and/or compensation). Determinations with respect to operating costs are subject to conflicts of interest, including those outlined in Item 10.

Furthermore, the Adviser may be entitled under each Governing Document to be reimbursed for various expenses that it or its related persons incur on behalf of the relevant client, potentially including compensation and overhead costs attributable to certain personnel of the Adviser or its related persons who provide services to the relevant client.

The Adviser or its related persons may waive such person's right to reimbursement of any portion of operating costs it has incurred. The decision to waive (or not to waive) reimbursement rights with respect to any particular operating cost or expense shall not create or imply any right or obligation with respect to any other reimbursement rights, including with respect to operating costs of a similar nature to those for which reimbursement rights have been waived.

Neither the Adviser nor any supervised person receives compensation for the sale of securities or other investment products to clients or investors.

### **Services Provided by Arcesium LLC**

The Adviser has engaged Arcesium LLC ("Arcesium") to provide certain middle- and back-office technology and services to the Adviser. Arcesium is a joint venture between a subsidiary of DESCO LP and certain third-party minority investors that was formed in 2015 when a substantial portion of the D. E. Shaw group's back- and middle-office functions spun out into an independently managed entity.

Arcesium provides certain technology and services with respect to certain Funds related to various middle- and back-office functions, including trade capture, asset servicing, margin and collateral monitoring, wires services, trade and position reconciliation, cash reconciliation, pricing, and support for accounting, tax, investor reporting, and compliance. In providing such technology and services, Arcesium

is subject to the overall supervision of the Adviser, and the Adviser or its affiliates (other than Arcesium) retain authority for determining the final valuation of each Fund's investments.

To the extent that Arcesium provides services or technology to any service provider to a Fund (*e.g.*, a third-party administrator) or to any manager of or investment adviser to any unaffiliated fund in which a Fund makes a direct or indirect investment, any charges paid to Arcesium in connection with such services or technology may be borne, indirectly, by a Fund, and such charges will not reduce any Management Fee or Performance Charges. Further, for the avoidance of doubt, costs associated with Arcesium, and all operating costs, are independent of, and will not be netted against, any Management Fee or any Performance Charges.

Arcesium has no portfolio management, investment advisory, or fiduciary responsibilities with respect to any client. Arcesium does not manage, monitor, or oversee any trading decisions of any client, any client's compliance with its investment objectives, or any other aspects of the portfolio management activity of any client.

## **Item 6: Performance-Based Fees and Side-by-Side Management**

As outlined in Item 5, the Adviser and/or its related persons may accept Performance Charges, the terms of which would be set forth in the applicable Governing Document; the amount of such Performance Charges varies, whether in percentage terms or in absolute dollar amounts, among clients. Furthermore, the Adviser and/or its related persons receive the benefit of other more favorable terms (such as with respect to Management Fees or the reimbursement of expenses) in connection with their management of certain clients than in connection with their management of other clients.

The Adviser and/or its related persons hold significant ownership interests in certain Funds. For purposes of this brochure, (a) "Significant Management Capital Entity" refers to any Fund or other entity in which the Adviser and/or its related persons are the ultimate beneficial holders of significant ownership interests, possibly including a substantial majority or all of such ownership interests, and (b) "DESCO Favorable Entity" refers to any Significant Management Capital Entity, Fund, or other entity in which the Adviser and/or its related persons receive the benefit of more favorable terms (including without limitation higher Performance Charges or Management Fees or more generous expense reimbursement provisions) than those applicable to a particular Fund. Certain clients currently qualify as Significant Management Capital Entities and/or DESCO Favorable Entities. In the future, (x) the Adviser's and/or its related persons' ultimate beneficial ownership of a Significant Management Capital Entity may increase (or decrease) and/or (y) the Adviser or its related persons may receive more favorable terms with respect to a DESCO Favorable Entity. Clients and prospective clients should note that Significant Management Capital Entities and/or other DESCO Favorable Entities invest in asset classes in which clients also invest and, in certain cases, pursue investment strategies that are substantially the same as, or substantially similar to, all or certain elements of the investment strategy pursued by a client.

The Adviser and/or its related persons (a) hold investments in DESCO Favorable Entities that are larger, whether in percentage or absolute dollar terms, than any investments they hold in other clients and/or (b) provide services to DESCO Favorable Entities that generate higher compensation (*e.g.*, in the form of Management Fees, Performance Charges, or other amounts that are greater, whether in percentage or

absolute dollar terms), than the corresponding amounts paid by other clients. As a result, the Adviser and/or its related persons have incentives to deploy more profitable investment strategies (including investment strategies with higher returns and/or Sharpe ratios) on behalf of, or to allocate more profitable investment opportunities to, such DESCO Favorable Entities instead of other clients, and in fact have done so on behalf of certain DESCO Favorable Entities (including Significant Management Capital Entities) and expect to continue doing so in the future. Deployment or allocation of such investment strategies or opportunities to a DESCO Favorable Entity decreases the number and quality of investment strategies and opportunities available to such other clients. Further, the Adviser and its related persons have incentives to increase the capital each invests in Significant Management Capital Entities, even if such increase would exacerbate the conflicts of interest described in this paragraph. More generally, the divergent interests of DESCO Favorable Entities, on the one hand, and other clients and/or their underlying investors, on the other hand, create incentives for the Adviser and certain of its related persons to devote more time and resources to such DESCO Favorable Entities rather than to other clients.

For all of the foregoing reasons, the Adviser and/or its related persons face conflicts of interest in respect of the allocation of investment opportunities among clients. Please see Item 10 for information regarding certain such conflicts and Item 12 for a discussion of aggregated client orders.

## **Item 7: Types of Clients**

DESIM's clients include public and private pension plans, investment companies registered under the Investment Company Act, Undertakings for the Collective Investment in Transferable Securities ("UCITS") governed by Directive 2009/65/EC, and certain other institutional investors. DESIM's clients also include the Funds, which are structured as private investment companies that are exempt from registration under the Investment Company Act. A minimum dollar value of assets and other conditions are typically imposed on clients.

DESIM advises clients that are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). DESIM qualifies as a "qualified professional asset manager" ("QPAM") as defined by ERISA. As a result, client transactions directed by the Adviser may be exempt from certain prohibited transaction rules under ERISA.

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

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

The Adviser primarily deploys two types of investment strategies—its "Active Equity Strategies" and strategies on its "Orienteer Platform." With respect to its Active Equity Strategies, the Adviser applies the D. E. Shaw group's quantitative and computational techniques, based on the D. E. Shaw group's experience in managing alternative investment strategies, to construct benchmark-relative equity strategies for both separately managed accounts and Funds. The Adviser can customize its Active Equity Strategies by allowing a client to select a portfolio benchmark from a number of U.S., international, and global equity indices. The Adviser can manage its Active Equity Strategies on either a long-only basis or using a "130/30," "150/50," or similar investment approach.



The portfolios of Funds and managed accounts in which the Adviser deploys its Active Equity Strategies are generally expected to include common and preferred stock (including ETFs and other investment companies), swaps and other derivative instruments and contracts related to the foregoing, and money market instruments. In particular, such portfolios are expected to be focused on corporate equity securities publicly traded in U.S. and foreign markets (whether held directly or via swap) and ETFs.

With respect to the strategies on its Orienteer Platform, the Adviser seeks to generate attractive long-term risk-adjusted returns across various asset classes through asset allocation and alpha generation. In deploying the strategies on its Orienteer Platform, the Adviser makes extensive use of subjective, qualitative evaluation in both the formulation and execution of many of its investment decisions. Such decisions also may be informed by, and/or made or executed algorithmically according to, quantitative models. Certain strategies on the Adviser's Orienteer Platform may be managed in a manner that contemplates certain tax considerations applicable specifically to U.S. taxable investors or in a manner that is consistent with the requirements for registered funds under the Investment Company Act.

The portfolios of Funds and managed accounts in which the Adviser deploys the strategies on its Orienteer Platform may include without limitation currencies; bonds, notes, debentures, bills, and other forms of indebtedness or liability issued or incurred by sovereign nations, governmental agencies and instrumentalities, corporations, municipalities, or other persons; futures, options on futures, and forward contracts; swaps (including credit default swaps) and other derivative instruments; common and preferred stock; mortgage TBAs; mortgages, mortgage-backed securities, and other asset-backed securities, including securities backed by various forms of consumer and asset-based finance receivables; exchange-traded funds (and interests in other investment companies); commodities; energy-related products and instruments; weather-related instruments; emissions allowances and transmission rights; bank notes, term loans, debtor-in-possession loans, revolving loans, bank guarantees, letters of credit, and other forms of lender assets or obligations; options, rights, warrants, convertible securities, exchangeable securities, synthetic and/or structured convertible or exchangeable products, participation instruments, and investment contracts; insurance- and reinsurance-related products; instruments having a value or return that is explicitly tied to the occurrence (or non-occurrence) of economic, political, legal, natural, technological, bankruptcy, default, and/or other events; catastrophe bonds, industry loss warranties, and other catastrophe risk-linked instruments; royalty trusts; intellectual property; assets with specified tax attributes; cash and cash equivalents; money market instruments; limited partnership and other limited liability interests; general partnership and other unlimited liability interests; interests in portfolio funds; real estate and other forms of real property-related instruments; trade claims and other receivables; financial interests in settlements of legal disputes; and/or any other security, instrument, interest, or property selected by the Adviser (collectively, "Investments").

Investments held in connection with the strategies on the Adviser's Orienteer Platform are expected to relate to markets and/or issuers both in the United States and outside the United States. Moreover, the types of Investments held, the countries in which the issues of such Investments are located, the percentage of the applicable market that such Investments represent, and the concentration of particular Investments and/or investment activities for a client are likely to vary over time. Such Investments may be traded on exchanges, "over-the-counter," or on any other markets, or may not be traded on any exchange or other market. In addition, with respect to certain of its strategies, the Adviser is expected to

cause clients to hold cash and cash equivalents to support their activities, including in connection with Investments, financing or hedging activities, or for operating costs.

The Adviser's trading and other authority with respect to a particular client is outlined in the applicable Governing Document.

### **Certain Risk Factors**

An investment in a managed account or Fund managed by the Adviser involves substantial risks that should be carefully considered by a prospective client or investor, respectively. Certain risk factors that may be applicable to such an investment are outlined below. With respect to Funds, additional risk factors are outlined in the applicable Governing Document. It should be noted, however, that there may be other risk factors applicable to such an investment that are not identified. Any of the risks outlined below and/or in the applicable Governing Document, as well as any other risks that are not identified, could result in material losses to investors. Prospective investors should also consult their own legal, investment, tax, and other advisers, and the applicable Governing Document, as to whether such an investment is appropriate for them.

It should be noted that many of the risks outlined under one caption or heading are applicable to one or more other captions and headings.

### **No Assurance of Investment Return**

An investment in a managed account or Fund managed by the Adviser involves a high degree of risk, potentially including the risk that the entire amount invested will be lost. An investment in a managed account or Fund managed by the Adviser is not intended as a complete investment program. Such an investment should be regarded as speculative in nature and appropriate only for a sophisticated investor that can afford a loss of its entire investment and that is financially able to invest for an indefinite period. It should not be assumed that an investment in a managed account or in a Fund managed by the Adviser will be profitable.

In addition to the risk of loss on such a managed account's or Fund's Investments, an investment in a managed account or Fund managed by the Adviser is subject to the direct and indirect fees and expenses outlined elsewhere in this brochure or in the applicable Governing Document, including any applicable Management Fee and operating costs, which fees and expenses will reduce returns (possibly materially) and require that the managed account or Fund make a certain amount of profit from its investing activities in order for an investment in such managed account or Fund simply to break even.

Past or current performance of any of the Adviser's strategies or the investment vehicles sponsored, advised, and/or managed by the Adviser, or of any investment strategies operated within any such investment vehicle (including investment strategies that are substantially the same as, or substantially similar to, all or certain elements of the investment strategy pursued by such investment vehicle), is not indicative of the results that will be achieved either by any such strategy or vehicle in the future or by any other strategy or vehicle. Further, such past performance provides no assurance of the success of any strategy or vehicle in achieving its investment objectives. Managed accounts and Funds managed by the Adviser have (or have had) investment strategies, personnel, and/or trading and other counterparty relationships that differ significantly from those of another client or may have operated in market

conditions that were more favorable to the investment strategy deployed by such managed account or Fund than current or future market conditions are or will be.

### **General Factors**

The operating results, financial condition, activities, and prospects of a managed account or Fund managed by the Adviser could be materially adversely affected by changes or instability in market, economic, political, technological, regulatory, and social conditions and by numerous other factors outside the control of the Adviser.

Many of the Adviser's investment strategies and/or Investments are likely to be exposed to risks relating to weaknesses in various global economies and risks relating to the economic cycle. Numerous factors affecting the performance of the Adviser's investment strategies, such as market volatility (or lack thereof), interest rates, commodity prices, equity prices, currency prices, credit spreads, availability and terms of financing, demand from market participants, and deflationary and inflationary pressures, may be affected by the economic cycle and long-term economic trends. Predictions about financial market conditions and economic factors are highly uncertain, and the presence, duration, and impact of any market or economic conditions could have a material adverse effect on the Adviser's investment strategies.

Disruptions in the global financial markets, whether similar or dissimilar to those caused by the coronavirus pandemic that emerged in early 2020 or the global financial crisis that began in 2008, are expected to exacerbate the risks to which Investments are exposed and may have a material adverse effect on the value, liquidity, and stability of the Adviser's investment strategies and/or specific Investments. The duration, severity, and ultimate effect of any such disruptions cannot be forecast with confidence.

As a general matter, however, certain investment strategies deployed by the Adviser are expected to experience losses (which may be material) during periods in which there are widespread declines in market levels and/or asset prices, as is often the case during such disruptions. Moreover, as outlined in "Changes in Law; Governmental Intervention" below, such disruptions may lead to additional regulations or laws, changes in interpretation or application of such regulations or laws, governmental intervention, and/or changes in industry practice, any of which could have a material adverse effect on the Adviser's investment strategies.

The Adviser expects not to attempt to, and may be unable to, hedge all of the risk exposures of a client, including certain risk exposures outlined in this brochure, and there can be no assurance that any hedging that is attempted by the Adviser would in fact reduce applicable risks.

The risk models and risk management techniques expected to be deployed by the Adviser are based on the information and data available to it as well as on its assumptions, assessments, and estimates, all of which are subject to error. As a result, such models and techniques may not account for all relevant factors or may not account for any such factors correctly. More generally, there can be no assurance that such models and techniques would be effective.

### **Special Risks of Certain Markets**

Certain markets pose special risks due to, among other factors, the limited availability of useful information, the reliance on self-interested persons for price and other information, a limited number of

market participants, brokers, and/or other counterparties or intermediaries, and more or less regulation. For example, price information might be available only from brokers or dealers and might not be verifiable. Further, less regulation in certain markets might enable market intermediaries or other investors to engage in “frontrunning” (whether directly or through their customers or agents) of a client’s trades, to misuse information about positions held by a client to reduce the value or liquidity of those positions, and to take other actions that materially adversely affect the Adviser’s investment strategies. The limited availability of price information or actions of market intermediaries or investors could exacerbate other risk factors outlined in this brochure, including short squeezes, and could have a material adverse effect on the Adviser’s investment strategies. In addition, brokers, dealers, or other market participants may withdraw or substantially reduce the scope of their activity with regard to certain markets or Investments without notice, resulting in disruptions to strategies, pricing, and/or the ability to liquidate or close out positions. Any of the foregoing could have a material adverse effect on the Adviser’s investment strategies.

### **International Investments**

The Adviser is expected to cause one or more of its clients to purchase, sell, hold, trade, structure, restructure, and otherwise acquire or dispose of, or have exposure to, Investments relating to markets and/or issuers both in the United States and outside the United States, including in certain developing or emerging markets. International investing and trading involve special risks not typically associated with investing and trading in Investments relating to markets and/or issuers solely in the United States. Depending on the particular countries and Investments involved and on the nature of the particular transactions executed outside of the United States, these special risks are expected to include without limitation (a) changes in exchange rates and exchange control regulations; (b) downgrades in sovereign credit ratings; (c) devaluations or non-convertibility of non-U.S. currencies; (d) failures or disruptions in central banks, banking systems, markets, or financial exchanges; (e) changes in monetary policies, interest rates, or interest-rate policies; (f) political, social, and economic instability and/or related popular unrest; (g) ethnic, racial, religious, and/or other similar conflict; (h) hostile relations with neighboring countries and or other adverse diplomatic developments; (i) changes in government; (j) investment and repatriation restrictions; (k) the nationalization and/or expropriation of assets; (l) governmental intervention in the private sector and/or involvement in or control over the country’s economy; (m) default by public and private issuers on their financial obligations (and limited recourse in connection with such defaults); (n) the imposition of significant taxes; and/or (o) restrictions on foreign investment and other forms of discrimination against foreign investors. In addition, relative to similar Investments or transactions in the United States, such special risks are also expected to include (i) less liquid markets; (ii) less information; (iii) higher transaction costs (including costs associated with alternative financing, structuring (including the use of tax blockers), and exit strategies); (iv) greater difficulty in enforcing contractual obligations; (v) fewer or different rights for creditors and/or investors generally; (vi) more uncertain procedures and precedents (if any) for bankruptcy or other reorganization or liquidation proceedings and other legal proceedings; (vii) less developed or different laws regarding fiduciary duties of officers and directors, the protection of investors, and the enforcement of contractual obligations; (viii) less information regarding legal and regulatory risks; (ix) less uniform, less detailed, and less prescriptive accounting and auditing standards; (x) greater price volatility; (xi) different or less reliable clearance and settlement procedures; (xii) more onerous regulatory requirements for private investment

funds; and/or (xiii) less governmental supervision of exchanges, brokers, market intermediaries, issuers, and other markets and market participants.

Further, individual non-U.S. economies may differ favorably or unfavorably from the U.S. economy in various respects, such as pace of economic growth, rate of inflation, amount of capital reinvestment, degree of resource self-sufficiency, dependence on exports, and balance of payments position. For example, inflation and rapid fluctuations in inflation rates have had and may continue to have very negative effects on the economies and securities markets (both public and private) of certain countries in which the Adviser may invest or to which a client may have exposure, and therefore may have a material adverse effect on the Adviser's investment strategies.

Certain clients are expected to trade, directly or indirectly, on exchanges and/or to use clearinghouses or clearing firms, located outside the United States. Some non-U.S. exchanges, in contrast to domestic exchanges, are "principals' markets" in which performance is solely the responsibility of the individual member with whom the trader has entered into a contract and not that of an exchange or its clearinghouse. Clients thus may be subject to the risk of the inability of, or refusal by, a counterparty to perform with respect to any such contract. Moreover, as there may be less government supervision and regulation of non-U.S. exchanges, clearinghouses, and clearing firms than of those in the United States, clients may also be subject to greater risk of failures of the exchanges on which their positions trade and/or failures of such exchanges' clearinghouses or clearing firms than would be the case in the United States.

Certain clients are expected to invest in one or more countries with developing or emerging markets. The foregoing risks are likely to be more pronounced in connection with any Investments in such countries.

A client may be treated as a U.S. person for purposes of (a) U.S. Commodities Futures Trading Commission ("CFTC") futures regulations, which could limit such client's ability to participate in certain non-U.S. futures and (b) CFTC and SEC swap regulations, which could affect the manner in which a client may participate in certain swap transactions, each of which in turn could have a material adverse effect on such client. Any such client's status as a U.S. person or non-U.S. person for these purposes may depend on, among other factors, the level of investment in such client by U.S. investors, and, with respect to CFTC and SEC swap regulations, the principal place of business relevant to such client and, accordingly, such status may change from time to time.

### **Availability of Investment Opportunities**

There can be no assurance that the Adviser will be able to identify and/or successfully take advantage of suitable investment opportunities. For example, it is expected that the effectiveness of certain quantitative models developed in connection with the systematic trading strategies deployed by the Adviser will be particularly sensitive to changes in applicable policies, regulations, or laws; changes in the number, nature, or behavior of other market participants; and/or changes in economic or market conditions generally. The effectiveness of such models may therefore diminish, disappear, or become negative, any of which could occur quickly or over a more prolonged period. As a result, the performance of the Adviser's investment strategies will depend on the ability of the Adviser to develop suitable models and to respond to such changes. In addition, the Adviser decides which investment opportunities to pursue based on the information and data available to it and on its assumptions, assessments, and

estimates, all of which are subject to error. Even if the Adviser makes or maintains investments with the intent of taking advantage of a perceived investment opportunity, there is a risk that any such decision will result in losses to the Adviser's clients due to unanticipated circumstances, errors in judgment, errors in execution, or other causes.

Further, the Adviser may elect to stop deploying any particular investment strategy or element thereof on behalf of a particular Fund at any time, regardless of whether such strategy and/or element has been successful or whether other Funds (including DESCO Favorable Entities) continue (or begin) to deploy such strategy and/or element. If the Adviser is not able to identify and/or take advantage of suitable investment opportunities, it may alter its investment strategy and/or risk tolerances in order to deploy capital, which may have a material adverse effect on the Adviser's investment strategies. Alternatively, the Adviser may determine to deploy less capital, which could cause the applicable client to miss an opportunity to recover any prior losses or to benefit from potentially attractive future returns. In addition, the Adviser has taken in the past, and expects to take in the future, actions with the express purpose of reducing the overall risk of a client's portfolio, whether in response to perceived market stress or for any other reason. The Adviser may do so by liquidating certain Investments, by reducing or eliminating the leverage employed by such client, and/or by any other means, each of which could make it substantially more difficult for the client to take advantage of profitable investment opportunities and to realize its investment objective. It is also possible that the Adviser will take such actions at inopportune times and that, as a result, the Adviser will fail to reduce portfolio risk in time to avoid material losses or will increase such risk too late to take advantage of a market recovery.

Even if investment opportunities are identified, the Adviser is currently expected to cause one or more of its clients to hold significant cash positions for extended periods of time, which may materially reduce the returns of such client(s). Alternatively, the Adviser may elect to cause one or more of its clients to hold little or no cash for extended periods of time, which may materially increase the risk of loss associated with such client's activities.

### **Concentration; Limited Diversification; Correlation**

The portfolios of the Adviser's clients are expected to be concentrated to varying degrees in particular countries, industries, exchanges, counterparties, strategies, types of Investments, issuers, issuances, companies, or other shared characteristics. Any such concentration would magnify the risks associated with the Investments held in such portfolios, including the risk of significant losses. Portfolios managed by the Adviser may not have any diversification requirements, other than any requirements that may be imposed by applicable law or regulation. In general, less diversification will tend to expose the applicable client to greater volatility and/or risk than would be the case with a more broadly diversified portfolio. Even if a particular client's portfolio were diversified, however, there can be no assurance that such diversification would reduce volatility and/or risk.

In addition, certain Investments held in a client's portfolio may represent, alone or together with Investments held in other clients' portfolios, a significant percentage of the markets in which such Investments are traded, and there are no restrictions (other than limits imposed by applicable law or regulation) on the percentage of any market that such Investments may represent. Occupying a significant position in any given market likely would result in such Investments in such market being less

liquid than would be the case with a smaller position, may subject a portfolio to additional regulatory scrutiny or restrictions, and/or may have other adverse effects.

It is expected that certain Investments made and strategies deployed by the Adviser will experience returns that individually or in the aggregate are correlated (possibly highly) with one or more market indices or other strategies, including various equity, debt, commodities, currency, or other markets around the world. In addition, it is likely that certain elements of the strategies deployed by the Adviser on behalf of a client, and/or that certain Investments, will be closely correlated with one another from time to time. Correlations between such elements and/or Investments, and/or correlations between the returns of client portfolios managed by the Adviser and the returns of market indices and/or other investment vehicles, are likely to change over time. In particular, such correlations are expected to increase following any substantial changes to market structure, other unusual market activity, and/or in times of market stress (such as those caused by widespread liquidation events or significant geopolitical or economic events or crises). Any increase in the correlations described in this paragraph would reduce the level of diversification of a client's Investments, which could result in material losses, particularly for those clients deploying significant leverage.

Moreover, certain of the strategies deployed by the Adviser are expected to have (possibly extensive) unhedged exposure, whether intentional or unintentional, to various market movements, style factors, and/or other sources of risk anywhere in the world, whether known or unknown, while other strategies deployed on behalf of a client may have such unhedged exposures from time to time. Such sources of risk, which could be extensive, include without limitation changes in the levels and/or volatility of interest rates, currency prices, commodity prices, sovereign credit spreads, corporate credit spreads, equity prices, and other markets, as well as the correlations between any such risks. As a general matter, a client's unhedged exposure is expected to result in the client experiencing losses (which may be material) during periods in which there are widespread declines in market levels and/or asset prices.

There can be no assurance that an investment in a portfolio managed by the Adviser would improve the risk/return profile of any client's or investor's overall portfolio or otherwise improve the performance of such portfolio, and such an investment may in fact result in material losses.

### **Volatility of Investment Returns**

The performance of strategies the Adviser deploys on behalf of its clients may be highly volatile (both in absolute terms and relative to expected and/or realized returns), potentially resulting in increased risks, including the risk of substantial losses. Certain such strategies are expected, by design or otherwise, to have high volatility, negative skewness (or "left tail" risk), negative kurtosis (or "flat" distribution risk), high correlation with certain macroeconomic risk factors, high position concentrations, and/or other significant risks, whether in absolute terms or relative to expected and/or realized returns, or relative to certain strategies that are deployed by the Adviser on behalf of other clients. As a result, the investment returns of a client, as well as the investment returns of particular Investments (both individually and relative to one another) are expected to vary significantly over time, and there is a risk of substantial losses to such client. A prospective client or underlying investor should invest with the Adviser only if it has determined that such variance of returns is consistent with its investment objectives and risk tolerances.

The risks outlined in this section may be incurred intentionally and are expected to result, in part, from the election by the Adviser not to take risk-reducing actions that it might take elsewhere, including where it deploys similar strategies on behalf of other clients.

In addition, the Adviser is expected to deploy certain strategies (or elements of certain strategies) for various clients. It is possible that such strategies (or elements thereof), when deployed on behalf of a particular client, may produce returns that are not closely correlated with, and from time to time may be inferior to, the returns associated with such strategies (or elements thereof) as they are deployed on behalf of other clients (including DESCO Favorable Entities).

Certain client portfolios are expected to be concentrated in certain types of Investments. As a result, such clients' returns may be subject to greater volatility (and risk of substantial losses) than would be the case if such clients were more diversified.

### **Complexity of Quantitative Strategies**

The Adviser will make extensive use of computer technology and quantitative analysis in both the formulation and execution of the investment strategies that the Adviser deploys on behalf of clients, and the Adviser's investment decisions are expected to be informed and/or made by quantitative models and certain such decisions are expected to be executed through the use of trading system algorithms. Such technology, analysis, and models (the "Quantitative Tools") are highly complex and require or involve, among other things, the use and integration of sophisticated mathematical, financial, and other research, analysis, and calculations as well as the development and deployment of complex computer programs and systems. Although the Adviser endeavors to conceive of, design, write, test, program, maintain, monitor, and use such Quantitative Tools correctly and to deploy them effectively, each task required to do so typically is itself complex and requires substantial specialized expertise and experience. There can be no assurance that the Adviser will complete or integrate any such tasks in an effective manner, and the Adviser may be unable to deploy the Quantitative Tools successfully as a result.

In addition, the Adviser exercises significant subjective judgment throughout the development and subsequent use of the Quantitative Tools, including in connection with (a) formulating any applicable investment hypotheses; (b) constructing forecasts and models to identify specific investment opportunities related to such hypotheses; (c) designing and utilizing simulations and other tools to the extent applicable to test and analyze such hypotheses; (d) collecting, organizing, and cleaning data and other information required for such testing and for the operation of the Quantitative Tools generally; (e) determining which forecasts and models are deployed on behalf of a client at any time and their relative weightings, including when to disable or retire particular forecasts and models; and (f) developing optimization and trading software designed to translate the forecasts and models deployed on behalf of a client into individual trades and an overall target portfolio. Further, the Adviser has discretion to override or otherwise adjust the output of the Quantitative Tools from time to time (*e.g.*, to take into account certain non-financial considerations or to reduce the overall risk of a client's portfolio in response to perceived market stress or for any other reason), although it is not expected that such adjustments would be made frequently, and they may not be made at all. The exercise of any of the subjective judgment or discretion outlined in this paragraph is subject to significant risk of error, and any error in the exercise of such subjective judgment or discretion could have a material adverse effect on a client.



Successful deployment of the Quantitative Tools depends in large part on their ability to accurately predict the risks and returns of the assets in which a client may invest in connection with the elements of its investment strategy that rely on Quantitative Tools. However, such predictions are probabilistic in nature, and certain of them (possibly a material fraction) will turn out in hindsight to have been incorrect. Even if the Quantitative Tools could be designed perfectly, which they cannot, the financial markets are extremely complex, and it is not possible for the Quantitative Tools to take account of all applicable data or of all of the factors that could affect the risks and returns of assets in which a client may invest. In particular, infrequent, unforeseen, and low-probability events are expected to be especially difficult to account for in the design and deployment of the Quantitative Tools. As a result, there can be no assurance that any predictions made by the Quantitative Tools will be correct, whether in the ordinary course or in connection with such infrequent, unforeseen, or low-probability events.

Even when the Quantitative Tools make predictions that ultimately prove to be correct, a client may be unable to take advantage of such opportunities for one or more reasons. For example, even if the Quantitative Tools correctly predict the return of a given instrument, it may not be feasible (or the Adviser may not choose) for a client to hold such instrument long enough to realize that return.

The Quantitative Tools are both complex and proprietary, and the Adviser is not required, and does not expect, to provide information to clients or the underlying investors of Fund clients that would permit such clients and/or investors to monitor whether the Adviser is developing and using the Quantitative Tools appropriately.

### **Reliance on Data in Quantitative Activities**

The Quantitative Tools and the investment strategies deployed by the Adviser on behalf of certain clients are heavily dependent on data and other information (collectively, “data”) for their success. Although the Adviser endeavors to collect, clean, and use such data correctly, there are numerous potential risks related to such data, including that (a) the data available to the Adviser (whether obtained directly or through third parties) may be inaccurate, incomplete, anomalous, and/or otherwise inadequate or flawed (*e.g.*, if a data vendor restates or manipulates its data to better match a company’s publicly announced earnings or other information); (b) the Adviser may incorporate such data into the Quantitative Tools incorrectly; (c) such data, as well as the Quantitative Tools themselves, may become corrupted or otherwise compromised, including as a result of human error, computer failure, and/or unauthorized system access or use; (d) the manner in which such data is collected, whether directly or by third parties, could expose the Adviser and/or a client to liability and/or other adverse consequences (*e.g.*, if any such data includes personally identifiable information and/or otherwise implicates data privacy laws or if the Adviser’s collection practices violate a website’s terms of service and/or otherwise adversely affect a website operator); (e) the development and testing of the Quantitative Tools is subject to various potential data-related biases, including sampling, measurement, survivorship, look-ahead, and data-mining bias; (f) the Adviser might not utilize all relevant data (including data utilized by other market participants), including if the Adviser is unaware of it, if the relevant third-party provider (or such provider’s own data sources) ceases to provide it, or if the Adviser elects not to obtain or incorporate it into the Quantitative Tools (*e.g.*, based on legal, regulatory, reputational, or other considerations or if it is expensive and/or difficult to organize or clean); and (g) changes to data over time may be difficult to track and incorporate (or not

incorporate) into the Quantitative Tools appropriately. More generally, it is not possible to consider all data that may be applicable to each investment decision that may be made on behalf of a client.

Furthermore, the Adviser makes all determinations regarding the data that is used in connection with the Quantitative Tools, including which data to obtain and incorporate, how to use such data, and how to interpret the results of any simulations or other analyses involving such data, and the Adviser may make errors in connection with any such determinations, many of which are highly complex and/or subjective. The realization of any of the risks outlined in this section could significantly impair the ability of the Quantitative Tools to make accurate predictions or otherwise to serve the purposes for which they are deployed, which could have a material adverse effect on a client.

### **Quantitative Tools; Errors**

Errors have occurred and are expected to continue to occur in conceiving of, designing, writing, testing, programming, maintaining, monitoring, and/or using the Quantitative Tools, including errors in the manner in which such Quantitative Tools function together and the errors described above with respect to the data used in connection with such Quantitative Tools. Such errors may be caused by the Adviser or its related persons, by third parties, and/or by other factors. In addition, such errors may occur in Quantitative Tools developed by the Adviser and/or its related persons and/or in Quantitative Tools provided by others (*e.g.*, in third-party computer software or hardware). Any such errors may cause the Quantitative Tools to function differently than intended or to cease functioning altogether. Among other things, such errors may cause a client to make unprofitable investments, to make (or fail to make) investments in a manner contrary to the Adviser's intentions, and/or otherwise to take (or fail to take) actions in a manner that inhibits the successful deployment of elements of the Adviser's investment strategy.

Any such errors may be difficult to detect and may not be detected for a significant period of time. This risk is exacerbated by the fact that, as outlined below, the Adviser relies on DESCO LP for the intellectual property, including Quantitative Tools, that the Adviser deploys in connection with the activities of a client. In addition, elements of certain systematic investment strategies deployed by the Adviser or its related persons on behalf of certain clients are expected to result in the execution of a significant number of trades over relatively short periods of time, which may result in many trades being affected by any such error before it can be detected and corrected. Further, the complexity of the elements of such investment strategies that apply the Quantitative Tools, the interactions among such elements, and the complexity of the Quantitative Tools themselves, make it difficult or impossible to detect the source of any weakness or failure in such elements and/or such Quantitative Tools before material losses are incurred. For example, it may be difficult or impossible to distinguish unexpected trading results caused by market activity from unexpected trading results caused by an error in the applicable Quantitative Tools. The ability of the Adviser to identify and correct such errors will depend on the diligence and expertise of particular employees, and there can be no assurance that the efforts of such employees in this respect will be sufficient or successful. Further, even if the Adviser is actually able to identify one or more errors, it may nevertheless choose not to correct such errors, including if it determines (possibly incorrectly) that such errors are immaterial.

More generally, the Quantitative Tools utilized on behalf of a client are subject to inherent limitations and are susceptible to being improved upon as experience is gained, elements of the investment strategies are refined, and markets change. However, there can be no assurance that the Adviser would be able to or would make any such improvements, and its inability or failure to do so could have a material adverse effect on a client.

The Adviser and its related persons have policies and procedures designed to identify and address certain of the risks outlined above that relate to errors, and the Adviser and its related persons believe that such policies and procedures will enable them to identify and address those errors that a prudent person managing investment strategies like those deployed by the Adviser and its related persons would identify and address. However, many of the errors described in this section are expected to be difficult or impossible to detect, and such policies and procedures will not detect or eliminate all such errors (including because the Adviser may elect not to correct certain errors). Accordingly, clients and underlying investors of Fund clients should assume that such errors are an inherent part of the investment strategies deployed by the Adviser and/or its related persons. Further, the Adviser generally is not required, and generally does not expect, to disclose to clients or underlying investors of Fund clients any errors of the type described in this section.

### **Quantitative Forecast and Model Decay; Redeployment**

It is expected that the effectiveness of certain Quantitative Tools will be particularly sensitive to changes in (a) applicable policies, regulations, or laws; (b) the number, nature, or behavior of competitors and other market participants (including clients of the Adviser); (c) market structure; and/or (d) economic or market conditions generally. The utility (if any) of any such Quantitative Tools is therefore expected to diminish or disappear (or even become negative) over time or from time to time. Further, any such decay is unpredictable, may occur quickly or over a more prolonged period, and may not become apparent for a significant period of time, if ever. Accordingly, the performance of a client's portfolio with respect to elements of the Adviser's investment strategy that rely on Quantitative Tools will depend in part on the ability of the Adviser to identify any such decay and to develop suitable new forecasts and models.

In addition, the Adviser may respond to such decay by making changes to elements of its investment strategies, to the manner in which such elements are implemented, and/or to the Quantitative Tools. For example, the Adviser expects that, from time to time, it will seek to apply existing Quantitative Tools developed in one context to one or more different contexts (*e.g.*, by deploying on behalf of a client Quantitative Tools developed in connection with a different client or by applying existing Quantitative Tools to new markets or instruments). However, there can be no assurance that any such changes would be effective and, in fact, such changes could increase the likelihood of the errors described above.

### **Overlapping Quantitative Activities and Common Investor Risk**

A substantial number of other market participants deploy quantitative tools and investment strategies that overlap to varying degrees with the Quantitative Tools and with the elements of the investment strategies deployed by the Adviser on behalf of certain clients. As a result, such clients are exposed to significant risks arising from the trading and other activities of such market participants.

## **Reliance on DESCO LP**

DESCO LP has exclusive ownership of all intellectual property, including any Quantitative Tools, that the Adviser may deploy in connection with the activities of a client (whether such Quantitative Tools were initially developed on behalf of DESCO LP or developed on behalf of the Adviser). Although the Adviser or its subsidiaries make all determinations regarding whether, when, how, and to what extent to deploy in connection with the activities of a client any of the Quantitative Tools that DESCO LP elects to make available to the Adviser, neither the Adviser nor any of its subsidiaries has any control over DESCO LP or the manner in which DESCO LP conceives of, designs, writes, tests, programs, maintains, and/or monitors any Quantitative Tools developed on behalf of DESCO LP (which tasks DESCO LP generally expects to perform without regard to the interests of any client of the Adviser). Moreover, such Quantitative Tools include trade secrets and other competitively sensitive and confidential information (including the code and work papers underlying such Quantitative Tools). As a result, the Adviser's access to such information is restricted, and the Adviser has limited ability to supervise DESCO LP's performance of any such tasks in connection with any of the Quantitative Tools developed on behalf of DESCO LP. Notwithstanding the foregoing, DESCO LP has no portfolio management, investment advisory, or fiduciary responsibilities with respect to any client of the Adviser, and clients and underlying investors in Funds will have no recourse against DESCO LP with respect to any of the errors described in this section that may occur in connection with the Adviser's deployment of any Quantitative Tools.

## **Electronic Trading**

The Adviser expects to trade on electronic trading and order routing systems on behalf of its clients. Transactions using an electronic system are subject to the rules, regulations, and policies of the exchanges or persons offering the system or listing the instrument. Characteristics of electronic trading and order routing systems vary widely with respect to order matching procedures, opening and closing procedures and prices, trade error policies, and trading limitations or requirements. Trading on such systems also exposes a client of the Adviser to the risk that the applicable exchanges may have discretion to cancel particular orders or trades under certain circumstances, including in the event of market disruptions. Any such cancellations could alter such client's portfolio in unexpected and/or adverse ways.

There are also differences regarding qualifications for access, grounds for termination of access, limitations on the types of orders that may be entered into the system, and other applicable terms. Each of these matters may present different risk factors with respect to trading on or using a particular system. Each system may also present risks related to system access, varying response times, the behavior of other market participants, security, service providers, and the receipt and monitoring of electronic mail.

Trading through an electronic trading or order routing system is also subject to risks associated with system or component failure, whether such failure affects the hardware or software of the exchange or person offering the relevant system or of the Adviser. In the event of system or component failure, it is possible that, for a certain time period, it might not be possible to enter new orders, execute existing orders, or modify or cancel orders that were previously entered. System or component failure may also result in loss of orders or order priority. Trading venues offering an electronic trading or order routing system typically adopt rules to limit their liability, the liability of member brokers and software and

communication system vendors, and the amount that may be collected for system failures and delays, which rules vary among the venues.

In addition, changes in laws or regulations related to electronic trading and order routing systems are currently being considered in certain jurisdictions. Any such changes could have a material adverse effect on certain strategies deployed by the Adviser.

### **Reliance on Technology; Cybersecurity; Back-up Measures**

The Adviser's investment activities and strategies are dependent upon various computer and telecommunications technologies, many of which are provided by or are dependent upon third parties such as data feed, data center, telecommunications, or utility providers. The successful deployment, implementation, and/or operation of such investment activities and strategies, and various other critical activities of the Adviser on behalf of its clients, could be severely compromised by system or component failure, telecommunications failure, power loss, a software-related "system crash," unauthorized system access or use (such as hacking, ransomware attacks, or other cybersecurity breaches), computer viruses and similar programs, fire or water damage, human errors in designing, using, and/or accessing relevant systems, or various other events or circumstances. Such events or circumstances may affect the Adviser directly and/or may affect one or more third parties (including Arcesium and any third-party administrator to a Fund) that provide services to the Adviser and/or its clients.

It is not possible to provide comprehensive and foolproof protection against all such events and circumstances, and no assurance can be given about the ability of the Adviser or any third party to continue providing applicable services. Any event or circumstance that affects the Adviser's or one or more third party's computer and/or telecommunications systems or operations (including systems or operations at co-location sites or other locations not controlled by the Adviser) could have a material adverse effect on the Adviser's clients, including by preventing the Adviser from establishing, trading, modifying, liquidating, and/or monitoring its clients' Investments. In addition, such events could cause reputational damage to the Adviser, a related person, and/or any client, and could subject the Adviser, a related person, and/or any such client to regulatory fines or penalties, financial losses (including losses related to ransomware payments), reimbursement or other compensation costs, and/or additional compliance costs. A client may also incur substantial costs for cybersecurity risk management in order to prevent any such events in the future. A client could be adversely affected as a result of such events. Similar risks are present for third parties involved in the trading and/or holding of Investments, including issuers, borrowers, brokers, custodians, and counterparties; the realization of such risks could result in material adverse consequences for such third parties and may cause an Investment to lose value. Moreover, any unauthorized access to the information systems of the Adviser or certain third parties could result in the loss, disclosure, or improper use of tangible or intangible property of the Adviser, its related persons, or its clients, information relating to Investments, and/or personally identifiable information of the Adviser's clients or underlying investors in the Funds; any such loss, disclosure, or improper use could have a material adverse effect on such clients or investors.

The Adviser maintains back-up electronic books and records at its disaster recovery site, which is a fully operational data center facility. In the case of events that interrupt the Adviser's computer and/or telecommunications systems or operations, the Adviser hopes to resume trading, modifying, liquidating,

and/or monitoring its clients' Investments relatively promptly, subject to any circumstances that are outside the control of the Adviser. In the case of severe business disruptions (*e.g.*, regional power outage or loss of personnel), the Adviser may not resume such activities for one or more business days because (among other things) such resumption is dependent on other critical business constituents, such as brokers and exchanges, and on the nature of the disruption. Although the foregoing reflects the Adviser's objectives, designs, and/or plans, no assurance can be given that these objectives, designs, and/or plans will be realized, or that, in particular, the Adviser would be able to resume operations following a business disruption, and any such disruption could have a material adverse effect on the Adviser's clients.

## **Currencies**

Client accounts generally will be denominated in U.S. dollars but may be denominated in one or more other currencies. Therefore, investments in such accounts generally will be subject to fluctuations in the value of a client's own domestic currency relative to the U.S. dollar or any such other currency.

With respect to certain clients, the Adviser expects to recommend Investments that are denominated in currencies other than U.S. dollars and/or that will otherwise be exposed to movements in such currencies, and there generally is no limit on the portion of Investments that may comprise such Investments. In addition, certain clients are expected to make direct or indirect investments in, or otherwise hold, various currencies themselves. As a result, a client may be exposed to currency risks, including the risk of fluctuations in the value of the applicable currency relative to the U.S. dollar. The realization of any such currency risks could have a material adverse effect on such client. The Adviser may or may not seek to hedge such exposures (in whole or in part), and there can be no assurance that any such hedging would be feasible or, if undertaken, would reduce applicable risks. A client may also incur costs in connection with hedging against currency exposures and conversions between various currencies.

## **Leverage; Financing**

Certain of the strategies deployed by the Adviser are highly dependent on the use of leverage for their success, and certain clients are expected to employ substantial financial leverage in connection with their investment and other activities. When deploying such strategies, the Adviser intends to use instruments (including futures, swaps, options, and other derivative instruments) that, if such instruments were to decrease in value, could result in losses exceeding the capital allocated to them. In addition, the Adviser is expected to cause certain clients to buy certain Investments on margin and/or to enter into swaps or other derivative instruments to enhance leverage or for any other reason.

Although financial leverage may have the effect of increasing returns to a client in the event of favorable investment results, returns will be reduced by the cost of any such leverage, and any investment losses will be exacerbated by leverage (possibly causing substantial losses, including losses exceeding the total value of a client's assets managed by the Adviser). In the event that aspects of the investment strategy deployed by the Adviser and/or certain of a client's Investments become increasingly correlated and experience losses (*e.g.*, following substantial changes to market structure, other unusual market activity, and/or in times of market stress), such client's use of leverage would materially increase such losses. More generally, the use of leverage by a client will increase the volatility of the investment performance of such client's Investments and, as a result, the volatility of the returns to the client (and a Fund client's underlying investors).

The amount of leverage employed by clients is determined by the Adviser. The Adviser may cause a client to employ leverage up to the maximum amount permitted by the applicable Governing Document, by applicable law and regulation, and by the persons extending credit or otherwise providing leverage to the client. Only a limited amount of the leverage employed by a client may be apparent from the balance sheet or other financial statements of the client (not all of which may be available for inspection), and it is expected that a large portion (and possibly a significant majority or more) of the leverage employed would be effected through off-balance sheet transactions or methods, such as total return swaps (which can offer leveraged exposure to the reference instrument).

A client may incur potentially significant expenses, including interest charges and commitment fees, in connection with any leverage that it uses, and the client's returns will be reduced by such expenses. In addition, the rights of any lenders to a client (including a client's prime brokers) to receive payments of interest, additional margin, or repayments of principal generally will be senior to the rights of the client's underlying investors, and the terms of any such borrowings or arrangements may restrict certain activities of a client, including the client's ability to make distributions.

Notwithstanding the foregoing, there can be no assurance that clients will be able to borrow money, use margin, or engage in any financing transaction in order to obtain and/or employ leverage. In past years, the global financial markets have seen episodes of decreased availability, and increased cost, of certain forms of financing, particularly with respect to illiquid and/or difficult-to-value investments. Further, a client may not be able to obtain leverage and/or other financing, whether at a reasonable cost or at all, in the event that the Investments held by the client are not sufficiently diversified. Any inability of a client to obtain, employ, and/or maintain leverage or other forms of financing, whether at a reasonable cost or at all (as well as any decision by the Adviser not to use available leverage), would be expected to result in (possibly materially) lower returns to the client than had the client been able to obtain, employ, and/or maintain (or had elected to use) such leverage or other financing. Conversely, the Adviser may determine to obtain financing for clients despite the substantial costs or other onerous terms of that financing. By way of example, should a client require capital on an emergency basis, such as when that client is suffering substantial losses, the Adviser may agree to "rescue financing" on terms that are significantly favorable to the lender. Any such arrangement could have a material adverse effect on a client.

### **Derivative Instruments**

Certain clients may make investments in derivative instruments, subject to any limitations imposed by the applicable Governing Document, by applicable law or regulation, and/or by counterparties and clearing brokers. Derivative instruments are financial instruments that derive their performance, at least in part, from the performance of an underlying asset, index, interest rate, or other reference instrument. Examples of derivative instruments include swaps, futures, forwards, options, warrants, options on futures, and swaptions.

Investments and trading in derivative instruments generally are highly speculative and involve various risks that are different in certain respects from, and are possibly greater than, the risks associated with investing directly in the applicable underlying assets or reference instruments. Examples of various risks associated with derivative instruments include without limitation (a) market risk, (b) changes in interest rates, inflation, currency prices, credit spreads, and/or commodity prices, (c) complexity, (d) a high

degree of leverage, (e) illiquidity, (f) the absence of reliable price quotes and/or a reliable trading market, (g) unstable correlation between a derivative instrument and the underlying asset or reference instrument, (h) volatility, (i) the inability to hedge related risks effectively or at all, (j) tax risk, (k) governmental intervention to influence prices, (l) fiscal and monetary policies, (m) political or economic events or instability around the world, (n) legal or regulatory uncertainty, (o) position limits or other trading restrictions, (p) insider trading and other forms of market manipulation by other market participants, and (q) non-performance of counterparties (including direct or central counterparties).

Because investing in derivative instruments often requires amounts of capital that are small relative to the instruments' notional value, such investing is expected to result in leveraging effects for such client's overall portfolio. As a result, a decrease in the value of the derivative instruments held by a client of the Adviser could result in losses exceeding the capital allocated to them.

Investing in derivative instruments might deprive a client of certain tax benefits obtained from investing in the underlying assets or reference instruments and/or, with respect to over-the-counter derivative instruments, from investing in otherwise similar exchange-traded instruments.

Investing in options or warrants involves a risk of loss related to the premium for the option or warrant as well as a risk of loss related to the value of the underlying security or instrument, which loss in either case could be substantial. The writing of an uncovered option by a client may result in an unlimited loss of a client's capital within a relatively short period of time (including, for the avoidance of doubt, a loss in excess of the capital devoted to any such option). In addition, options may be cash-settled, physically-settled, or settled by entering into a closing transaction, each of which entails certain risks, including that (a) closing auctions for cash-settled options are particularly susceptible to idiosyncratic events and/or manipulation; (b) the premium paid for entering into a closing transaction may exceed the premium received when the option was written; and (c) the market for any particular option may become illiquid, which may prevent a client from entering into a closing transaction. The realization of any such risks could result in material losses.

Trading in futures contracts and options on such contracts may be subject to limitations imposed by regulatory authorities and relevant exchanges that may prevent a client from liquidating positions and could subject such client to substantial losses. Many derivative instruments, including forward contracts and options on forward contracts, are not traded on exchanges and generally are not regulated.

The regulation of derivative instruments is evolving, and changes in such regulation may materially adversely affect Investments in client portfolios. For example, several U.S. and non-U.S. regulatory authorities have adopted, and other regulators have proposed or considered, rules for oversight and/or regulation of the previously largely unregulated market in over-the-counter derivatives.

### **Credit-Related Investments**

The Adviser is expected to cause certain clients to purchase, sell, hold, trade, structure, restructure, and otherwise acquire or dispose of direct or indirect interests in certain credit-related investments, which may include various types of bonds, bond futures, mortgage-backed securities, credit-related exchange-traded funds and exchange-traded notes, loans, and other forms of indebtedness.



The discussion in this section is based in part upon principles of U.S. federal and state laws. However, it is possible that a significant portion of a particular client's portfolio will be invested in non-U.S. jurisdictions, and there may be no limit on the portion of such portfolio that can be invested in such Investments. With respect to Investments relating to non-U.S. borrowers, there can be no assurance that the laws of certain non-U.S. jurisdictions (and/or the consequences of such laws) would not result in different or additional risks.

### **General Risks; Default**

In general, any Investments by a client of the Adviser in credit-related investments and other forms of indebtedness will entail various (a) market risks (*i.e.*, the risk that certain market factors, including interest rates, credit spreads, supply and demand imbalances, and general economic conditions, caused by the activities of other market participants, will cause the value of the applicable Investment to decline) and (b) borrower-specific and issuer-specific risks (*e.g.*, the risk of non-payment, delayed payment, or pre-payment of interest and principal, the modification of key terms applicable to the underlying indebtedness, and the risk that changes in borrower or issuer credit quality causes the value of the applicable Investment to decline). Further, the Adviser may cause a client to invest in debt instruments that are currently in default, that previously were in default, and/or that may later experience events of default. Any default in payment, or modification of payment, under any debt instrument owned by a client of the Adviser may result in material losses to such client.

Certain clients may also invest in pools of loans, which may be subject to additional risks, such as high correlation of the performance of the loans in any such pool.

### **Secured Loans; Unsecured or Subordinated Loans**

Certain clients of the Adviser may invest in loans secured by property of the borrower. Investments in such loans are subject to the risk that some or all of the underlying collateral will decrease in value to an extent that the value of such collateral is insufficient to satisfy the borrowers' payment obligations under such loans in the event of a default. For example, investments in a large number of mortgage loans in a particular country or geographical region are subject to the risk of a general decline in property values throughout such region or country, which decline may be caused or exacerbated by various economic, social, political, and other factors. Measures taken by the Adviser to protect clients' interests in loans in which they may invest, including the validity or enforceability of such loans and the creation and maintenance of the anticipated priority and perfection of applicable security interests, may prove to be inadequate. There can be no assurance that any collateral would be sufficient to cover the obligations being collateralized or the amount of a client's investment. Any collateral may decline in value; may be subject to competing claims of creditors; may be difficult to recover or sell due to legal, regulatory, or other reasons; or otherwise may be inadequate to allow a client to recoup its investment.

The Adviser may cause certain clients to invest in loans that are secured with a junior priority interest or lien on collateral that is subordinated to senior secured obligations. Such loans are subject to a risk that the cash flow of the related borrower and the collateral securing such a loan may be insufficient to make scheduled payments after giving effect to any obligations in respect of the senior secured loans of the borrower. As a result, in certain situations little or no recovery may be available following a default with respect to such a loan. Such loans are also expected to be less liquid than senior secured loans. Such

loans are intended to be senior in right of payment and priority to any unsecured obligations, but the priority of such loans could be challenged, whether in bankruptcy court or otherwise. Any successful challenge could have a material adverse effect on the value of the applicable Investment.

Finally, the Adviser may cause a client to invest, directly or indirectly, in various types of unsecured indebtedness (such as senior unsecured, subordinated, or general indebtedness) that would be junior in priority to the claims of secured creditors. Such instruments are subject to a risk that the cash flow of the related borrower may be insufficient to make scheduled payments after giving effect to any obligations in respect of the borrower's senior secured loans. As a result, in certain situations little or no recovery may be available following a default with respect to such an instrument. Such instruments are also expected to be less liquid than senior secured loans. In addition, during a bankruptcy of the borrower, the claims of secured or senior creditors may exhaust some or all of the assets of a borrower before unsecured, subordinated, or general creditors may participate in such assets, thus materially adversely affecting the value of the applicable Investment.

### **Lender Liability; Equitable Subordination; Fraudulent Conveyance**

Investments structured as loans or other forms of indebtedness may subject clients to claims of lender liability and/or may be subject to claims of equitable subordination or recharacterization. The risk of such claims may be exacerbated if a client holds a significant equity position and/or certain management positions (including representation on the board of directors) with respect to the applicable borrower. It is also possible that such claims could arise without the direct involvement of a client or the Adviser with the applicable borrower. Any successful claims of lender liability against a client or any equitable subordination or recharacterization of any Investment (which may result in the claims of a client being subordinated to the claims of certain or all other creditors) could have a material adverse effect on such Investment held by a client (possibly resulting in losses that exceed the value of such Investment) and thus on the client itself.

Investments structured as loans or other forms of indebtedness may also be subject to claims of fraudulent conveyance if the borrower was insolvent or rendered insolvent. If such a claim is successful, a court could invalidate such indebtedness or the liens securing such indebtedness or impose other remedies, including recouping payments made to the lender with respect to the indebtedness. In addition, if a bankruptcy proceeding is commenced relating to a borrower, payments made by the borrower on an Investment may be subject to avoidance as "preferential payments" if made within a certain period of time (which may be as long as one year) prior to the commencement of such proceeding and while the borrower was insolvent. Any successful claims of fraudulent conveyance or preferential payment with respect to an Investment could have a material adverse effect on such Investment and, possibly, on a client, and the client and/or one or more of its underlying investors may be required to return related payments and could experience losses that exceed the value of such Investments.

### **Certain Additional Risks**

Certain loans or other forms of indebtedness in which a client may invest may be subject to additional obligations, including intercreditor agreements (pursuant to which certain creditors agree to restrictions on their rights) or future extensions of credit to the borrower. Such obligations may materially adversely affect the value of such loan or other form of indebtedness, such as by limiting the ability of the applicable

client to exercise its rights under the applicable loan or other agreement or by increasing such client's exposure to the borrower.

There is no clearinghouse for trading loans, bankruptcy claims, or certain other forms of indebtedness that may be held by a client, and in certain cases there may be no depository for custody of such Investments. The clearing, settlement, and custody procedures for loan assignments, participations, bankruptcy claims, and such other Investments are expected to be individually negotiated. Any such arrangements may create significant operational risks for a client, including the potential for delays and failures in confirmations and settlements, uncertainty as to the positions of a client or the terms of these positions, and the potential for counterparties to opportunistically use operational uncertainty to cause losses to (or eliminate gains of) a client. These risks, in turn, may expose a client to significant liability and substantial losses, which could have a material adverse effect on such client.

### **Debt Market Conditions**

In the past, disruptions in debt markets have affected the price of, as well as participants' ability to make, certain types of Investments, and there can be no assurance that similar disruptions will not occur in the future. Any such disruptions may negatively affect a wide range of issuers and may increase the likelihood that such issuers will be unable to make principal and interest payments on, or refinance, outstanding debt when due. Moreover, the risk that such disruptions will affect an issuer's ability to pay its debts and obligations when due is enhanced if such issuer in turn provides credit to third parties or otherwise participates in the credit markets. In the event of a default by an issuer, the Adviser's clients could lose both capital invested in, and anticipated profits from, any affected Investment. The reoccurrence of the events described in this paragraph, or other similar or dissimilar events, could have an adverse impact on the availability of credit to businesses generally and may lead to an overall weakening of the U.S. and other economies around the world. In addition, any disruptions of this kind may affect a client's ability to procure its own financing arrangements and/or the terms of any such arrangements.

### **Asset-Backed Securities**

The Adviser is expected to cause certain clients to invest directly or indirectly in asset-backed securities, which may include without limitation mortgage and other asset-backed security indexes, exchange-traded funds, exchange-traded notes, and Mortgage TBAs (as defined below). Asset-backed securities are structured securities collateralized or backed by another asset or assets, such as residential or commercial mortgages (including both agency-backed mortgages and non-agency mortgages), home equity loans, auto loans, student loans, installment sale contracts, credit card receivables, aircraft leases, commercial loans (including small- and medium-enterprise loans), corporate loans, investment-grade or high yield debt, other asset-backed securities, or a mix of such assets. Asset-backed securities may include instruments such as commercial mortgage-backed securities, residential mortgage-backed securities, collateralized mortgage obligations, collateralized bond obligations, collateralized debt obligations, and collateralized loan obligations, and may include synthetic structures that are backed by derivative instruments instead of by the relevant loans, bonds, or other assets themselves. Other types of asset-backed securities, including interest-only, inverse interest-only, and principal-only securities, may participate in only certain types of income streams generated by the underlying assets.

Asset-backed securities are often extremely complex and are subject to various material risks, including default, basis, illiquidity, lack of transparency, market, geographical concentration, servicer and other counterparty non-performance, legal, and operational risks. In addition, the values and returns of asset-backed securities may be subject to significant fluctuations as a result of relatively small changes in interest rates; the rates of prepayments, modifications, defaults, or late payments with respect to the relevant underlying assets; governmental regulation (*e.g.*, loan forgiveness or forbearance programs); or other factors. The value of an asset-backed security is highly dependent upon the performance of its underlying assets and upon the expected quality of the underlying assets. With respect to certain securities in which a client may invest, the credit quality of the underlying loans and other indebtedness is expected to be low, as is the case, for example, with respect to securities with a high proportion of underlying “sub-prime,” “covenant-lite,” and/or “loan-only” indebtedness. Further, a client may be exposed to the risk that the underwriting standards and practices of the third parties that issue the loans and other forms of indebtedness underlying a client’s asset-backed securities will be inadequate. In particular, deficiencies in any such standards and practices may result in higher-than-expected delinquencies and/or the inability to enforce payment obligations against the applicable borrowers.

Substantial leverage may be inherent in the structure of some asset-backed securities. Consequently, asset-backed securities may present a greater degree of risk than other types of fixed income securities and may be more volatile, less liquid, and more difficult to price accurately than less complex securities. Clients may enter into hedging transactions in certain circumstances to protect against interest rate movements, prepayment risk, defaults, or other factors, but there can be no assurance that such hedging transactions, if any are undertaken, would fully protect a client against such risks.

Asset-backed securities are typically separated into tranches representing different degrees of credit quality, with lower-rated tranches being subordinate to senior tranches. It is expected that the returns on the junior tranches of such securities would be especially sensitive to the rate of defaults in the collateral pool and would be subject to a substantially greater risk of non-payment than would senior tranches of such securities. There are no restrictions on the tranches in which clients may directly or indirectly invest.

Because mortgage-backed securities comprise pools of underlying loans, such securities are subject to risks similar to those applicable to investments in particular mortgage loans. In addition, certain types of mortgage-backed securities contain highly complex interest-rate and cash-flow provisions and may be highly volatile with respect to yield, total return to maturity, and market value. For example, a mortgage-backed securities position may experience losses due to defaults in one or more underlying mortgage loans, but it may be difficult to assess the extent of such losses because the resolution of such defaults may occur only after extended settlement negotiations, or after the foreclosure and subsequent liquidation of the underlying properties, which could take a significant period of time.

Asset-backed securities backed by other types of loans may be subject to similar risks. Even though assets typically support the underlying loans, full recovery of a loan in the event of default may not be possible due to litigation costs or delays, legal uncertainties, limited marketability or reduced valuations of the asset, and other similar or dissimilar factors. Accordingly, any defaults may materially adversely affect a direct or indirect Investment in asset-backed securities. In addition, the quality of certain asset-backed securities in which clients of the Adviser may invest, directly or indirectly, is subject to the accuracy and

completeness of representations made by the borrowers under the underlying loans. Accordingly, clients of the Adviser that invest in asset-backed securities are subject to the risk that originators of certain such asset-backed securities fail to adequately verify such representations, whether because of defects in the verification systems used by such originators or otherwise.

Investments by a client in mortgage-backed securities on a forward pass through or “to be announced” basis (“Mortgage TBAs”) are expected to involve certain additional risks. For example, the settlement cycle for Mortgage TBA trades is unusually long. As a result, such trades involve risk that a client’s counterparty will not deliver the applicable instrument as promised or will otherwise fail to meet its obligations. Because the Mortgage TBA market is also highly interdependent, any such counterparty failure could have wide-ranging effects on pricing and liquidity across the market as a whole. Further, although the parties to a Mortgage TBA transaction typically agree on the key economic terms of the instrument at the time of the trade, the actual pool of assets underlying such instrument is not identified until shortly before the settlement date. To the extent that the actual pool has lower credit quality and/or worse payment characteristics than the expected pool, the underlying Mortgage TBA could be adversely affected.

### **Sovereign Debt**

Certain clients of the Adviser are expected to invest, directly or indirectly, in sovereign debt instruments. Certain sovereign issuers have in the past experienced substantial difficulties in servicing their external debt obligations, which has led to defaults on certain obligations and the restructuring of certain indebtedness. Countries such as those in which clients of the Adviser may invest may experience high rates of inflation, high interest rates, exchange rate fluctuations and currency devaluation, large amounts of external debt, balance of payments and trade difficulties, political and/or social uncertainty and instability, and/or poor economic performance or conditions. Any of these factors, as well as other factors, could materially increase the risk of a total or partial default by such sovereign issuers and/or the risk of the restructuring of all or certain indebtedness of such sovereign issuers, either of which may result in substantial losses for the Adviser’s clients.

### **Distressed Debt and Other Investments**

The Adviser may cause certain clients to make direct or indirect investments in long and short positions in instruments issued by, or assets otherwise related to, companies that at the time of the applicable investment are experiencing, or subsequent to the applicable investment do experience, one or more forms of financial, business, operational, legal, and/or other stress, distress, or impairment, including companies involved in bankruptcy or other reorganization or liquidation proceedings (collectively, “Reorganization Proceedings”), as well as those emerging from Reorganization Proceedings and those seeking financial restructurings or reorganizations outside such proceedings. These Investments involve a high degree of risk that the total value of the applicable Investment may be lost.

The Adviser also may cause clients to purchase from banks, other financial institutions, or other investors bank loans (whether through assignment or participation transactions) and other forms of direct or indirect indebtedness (including revolving loans and letters of credit) of distressed companies.

Investments in loan participations would expose a client to risks related to the creditworthiness of the banks or other financial institutions issuing such participations. As a holder of participation interests or

as a member of a loan syndicate, such client may not be able to assert any rights against the borrowers of the underlying indebtedness and may need to rely on the financial institutions issuing the participations or the lead or agent bank to assert such rights. These financial institutions and banks may have reasons not to assert their rights, whether due to a limited financial interest in the outcome, other relationships with the borrowers, the threat of potential counterclaims, or other reasons.

The Adviser also may cause clients to purchase bankruptcy claims (including trade claims), which are amounts owed to creditors of a distressed company. Investments in bankruptcy claims are difficult to value. Moreover, bankruptcy claims generally are illiquid and non-interest-bearing, and there can be no assurance that a company will be able to satisfy its obligations under a claim.

Sophisticated financial and legal analysis is required to invest successfully in stressed or distressed companies, and there can be no assurance that the Adviser will adequately perform such analysis. Among other things, the Adviser may not correctly determine the value of the collateral (if any) supporting the Investments held by a client or the prospects for a successful reorganization or similar action. Such Investments may be subject to additional risks, such as significant volatility in the value of the Investment; the involuntary exchange of such Investments for cash, financial instruments, or other property (including illiquid Investments) having substantially less value than the original Investment; and/or delayed or extended payment for such Investments.

In addition, Reorganization Proceedings, as well as other financial restructurings or reorganizations, are subject to a number of risks. For example, such proceedings (a) may be of uncertain duration; (b) may be subject to unanticipated and possibly lengthy delays; (c) may involve substantial legal, professional, and administrative costs to the reorganizing company and its investors; (d) are adversarial and beyond the control of the Fund and other debtholders; (e) may result in the Fund losing its ranking and priority (*e.g.*, if it is deemed to have taken over control of the reorganizing company); (f) may involve other factors that are beyond the control of the reorganizing company and its investors; and/or (g) may result in the liquidation of the reorganizing company. Further, the Adviser, on behalf of a client, may decide to become involved in the restructuring of a particular distressed company, including through representation on creditors' or equityholders' committees or other groups (whether formal or informal) and participation in litigation or direct negotiations with the company's management, each of which may involve special risks and/or conflicts of interest for a client, including that such client may owe fiduciary and other obligations to (and thus be exposed to potential liability with respect to) other debt and/or equity investors in the reorganizing company and/or that such client may be restricted from disposing of the applicable Investments in such circumstances. The realization of any of these risks could have a material adverse effect on the value of the applicable Investment or on the Adviser's ability to dispose of or to act to protect the value of such Investment.

Administrative costs related to Reorganization Proceedings may be substantial and generally are paid from the reorganizing company's assets prior to any payments to creditors or equityholders. Certain other claims, including claims for taxes, have priority by law over claims of creditors and equityholders. Such administrative costs and other claims could materially reduce the return to the Adviser's clients on a particular Investment.

The realization of any of the risks outlined in this section could have a material adverse effect on the value of the applicable Investment and possibly on a client.

### **Low Creditworthiness Investments**

There is no minimum credit standard for a client's Investments, and a (possibly substantial) portion of the Investments held in connection with certain of the Adviser's investment strategies may, whether at the time of investment or at a later time, be unrated; rated below "investment grade" by recognized rating agencies; and/or defaulted; in each case, whether at the time of investment or at a later time. Unrated, sub-investment-grade, and defaulted Investments generally involve greater risk of loss in either a short or a long position than do investment-grade Investments. For example, the market values and yields of unrated, sub-investment-grade, and defaulted Investments generally react more dramatically to changes in general economic conditions, in the levels of interest rates, and in the financial condition and prospects of their issuers than do those of more highly rated Investments. During periods of economic downturn or rising interest rates, issuers of unrated, sub-investment-grade, and defaulted Investments may experience, to a greater degree than issuers of more highly rated Investments, certain forms of financial stress that could materially adversely affect such Investments. Such issuers may be in early stages of development; may not have proven operating histories; may be operating at a loss or have significant variations in operating results; may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence; may require substantial additional capital to support their operations, to finance expansion, or to maintain their competitive position; or may otherwise have a weak financial condition. Additionally, such issuers may be highly leveraged, which may present greater risks to these companies.

Adverse publicity and investor perceptions, whether based on fundamental analysis, market rumors, stress or distress of related issuers, or other sources, may materially adversely affect such low creditworthiness Investments. Adverse effects on long positions in these Investments include without limitation the increased probability of default, the decreased value of any recovery in connection with a reorganization proceeding, decreased secondary market prices (if any) for these Investments, and general decreases in the liquidity of these Investments. The secondary market for these Investments is concentrated among relatively few market-makers or investors and may be expected to be less liquid than the secondary market for Investments that have higher ratings or are issued by non-distressed issuers. In addition, the lower liquidity of unrated, sub-investment-grade, and defaulted Investments, as well as other factors outlined above, could exacerbate the risks of short positions in these Investments.

Certain forms of low creditworthiness Investments may be issued pursuant to note indentures, promissory notes, or other indicia of indebtedness that contain fewer debt covenants, rights, or remedies compared to those afforded to lenders under a credit agreement. As a result, such Investments would be more sensitive to certain risk factors as compared to similar debt instruments with greater debt covenants, rights, or remedies. Moreover, the lack of certain financial covenants with respect to such Investments may result in a higher risk of loss and may hinder the ability of a client to restructure a problematic loan in order to mitigate its exposure to loss.

## **Credit Ratings**

Certain of the securities, bonds, loans, or other forms of indebtedness in which a client of the Adviser may invest may receive ratings from Moody's, Standard & Poor's, Fitch, or another credit rating agency. No assurance can be given that ratings assigned by a credit rating agency will not be withdrawn or revised downward if, in the view of such credit rating agency, circumstances so warrant. Any such withdrawal or downward revision with respect to an Investment could have a material adverse effect on such Investment. Such ratings reflect only the views of those credit rating agencies, which views may prove inaccurate, and the Adviser is not obligated to obtain such ratings or to provide any such ratings to its clients (or, in the case of Funds, to underlying investors).

## **Energy-Related Investments**

The Adviser is expected to make various energy-related investments on behalf of certain of its clients. Energy markets operate in a politically charged environment and are subject to extensive regulation by various U.S. federal, state, or local and/or non-U.S. governmental authorities. These authorities directly or indirectly set, approve, or accept certain rates and contracts; establish or amend import and export controls; encourage or discourage capital projects; oversee energy transmission and distribution infrastructure; regulate energy markets; and otherwise govern matters relating to energy. The political environment and the high degree of regulation increase uncertainty with respect to pricing, supply, transmission, and/or delivery in energy markets, and could materially adversely affect any applicable client.

There is often only limited price information available in markets for trading energy and other energy-related Investments, and certain of this price information may be unreliable because it may reflect illiquidity, regulatory intervention, and/or improper behavior by market participants, including possible manipulation. Many of these markets also suffer from high volatility and a lack of transparency, and data from these markets may not prove useful when creating or applying quantitative trading strategies. In addition, many of these markets function or are regulated in isolation. These factors may result in limited coordination among markets and market participants and limited usefulness of various data.

Investments by the Adviser might not be based upon reliable data and may be made based upon the available data without correction. Also, applying models based upon data from other markets or even earlier time periods may prove unprofitable as a result of the limited applicability of these models across markets or time periods. Investments based upon the data described herein could have a material adverse effect on a client of the Adviser, particularly because such investments may be made on the basis of quantitative investment analysis and certain risk models that depend on reliable historical information for their successful development and implementation.

The markets for trading energy and energy-related Investments are affected by the number and type of market participants, which have varied significantly over time. Risks associated with illiquidity and volatility of energy markets may be exacerbated during periods in which many participants exit the market or significantly reduce their trading activities, or in which trading decreases generally due to market redesign or regulatory or other changes. In other periods, the depth and liquidity of such markets may change depending upon the mix of market participants such as suppliers, distributors, end users, and "financial" investors. Regulatory authorities or market participants may respond to any actual or



perceived uncertainty by changing the available products or services, the accessibility of markets, regulation, or other matters relating to the industry. Any such change could have a material adverse effect on a client of the Adviser.

Many regulators or operators of energy markets in which the Adviser may participate have authority to impose price caps, price restrictions, retroactive price changes, position limits, “circuit breakers,” and other mechanisms to address volatility or manage supply and/or demand in such markets. Various authorities may intercede in markets to exercise this authority. Such interventions may be difficult to predict and may significantly affect the markets in which the Adviser operates or hopes to operate. Any form of price cap, price restriction, or other mechanism implemented to try to control or adjust pricing, supply, or other market variables could have a material adverse effect on any client on whose behalf the Adviser deploys energy-related strategies.

One or more clients of the Adviser may also invest in emissions allowances, which may include emissions allowances of any type in any country under the jurisdiction of any regulatory authority.

### **Commodities**

The Adviser is expected to cause certain clients to invest in commodities, commodity futures contracts, and other instruments, interests, or property relating to or commonly regarded as commodities, along with rights and options, including puts and calls, with respect to any of the foregoing (collectively, “Commodity Interests”), which may include Investments in energy-related commodities, such as natural gas, electricity, coal, oil, and oil products; weather; metals; minerals; agricultural products; livestock; and emissions allowances and other environmental commodities.

The prices and/or liquidity of Commodity Interests may be highly volatile and may be influenced by a multitude of factors, including supply and demand relationships; interest rates; international trade; rates of inflation; governmental regulation (including import and export controls) and taxation; monetary and exchange control policy; policies of commodities exchanges; and environmental, social, political, or economic events. This volatility may be further magnified by commodities investors’ use of leverage, including leverage resulting from low margin deposits required with respect to certain types of Commodity Interests. Many of a client’s positions in Commodity Interests are expected to be highly leveraged, and as a consequence relatively minor price changes could result in immediate and substantial losses to the applicable client.

In addition, the Adviser’s ability to trade successfully in certain commodities markets on behalf of its clients may be undermined by limited or unreliable price information and/or improper behavior of market participants, including price fixing, market manipulation, and other predatory practices.

No actively traded market may exist for certain Commodity Interests, which may impair the ability of the Adviser to sell or to realize, on behalf of its clients, the full value of Investments in such Commodity Interests.

Commodity Interests and/or commodity markets are generally subject to complex and stringent laws, as well as to extensive and, in certain cases, evolving regulations imposed by applicable governmental agencies or exchanges. The Adviser’s clients may bear substantial costs complying with such laws and regulations, and any actual or alleged violation of such laws or regulations may involve civil or criminal

penalties; expose such clients to lawsuits from public and private parties; and/or cause such clients to incur material legal, contractual, settlement, reputational, or other costs. In addition, changes in such laws or regulations may increase uncertainty among market participants, may undermine contractual or market expectations of such clients and other market participants, may increase compliance costs, and may materially adversely affect liability of market participants (including such clients).

The Adviser does not expect that any of its clients will be required to make or take physical delivery of any commodities underlying its Commodity Interests. However, it is possible that such a client may be required to make or take such delivery in certain situations, including in the event of an extended shut down of a commodity exchange on which such Commodity Interests trade or in any other situation that severely limits the liquidity of any Commodity Interests. A client may also make or take physical delivery of commodities if the Adviser determines such client should do so. Making or taking physical delivery of commodities would result in additional risks and costs to a client, including those associated with acquiring, storing, transporting, hedging, insuring, and reselling such commodities. In addition, such client may lack necessary licenses or approvals to make or take delivery of such commodities, and such delivery may expose such client to additional laws and regulations that would not otherwise apply to such client's trading of Commodity Interests. The realization of any such risks could have a material adverse effect on such client.

### **Investments in Small, Midsized, and Early-Stage Companies**

Certain Investments held by the Adviser's clients are expected to be issued by, or otherwise related to, companies that are small or midsized and/or that are at a relatively early stage of their development. Investments in or related to any such small, midsized, and/or early-stage companies generally are subject to substantially greater risks than comparable investments in or related to larger and/or more established companies. Among other things, such companies are expected (a) to have limited operating histories; (b) to rely on unproven business models; (c) to have limited product lines and/or distribution channels; (d) to rely on a limited number of technologies or other innovations, which in turn may not be successfully developed or which could be subject to intellectual property or other claims that would delay, inhibit, or prevent their development entirely; (e) to engage in rapidly changing businesses with products subject to a substantial risk of obsolescence; (f) to experience unexpected issues in the areas of manufacturing, marketing, financing, product development, and general management, which, in some cases, cannot be adequately resolved; (g) to have unstable or unreliable revenue and limited financial and other resources; (h) to operate at a loss and/or have a weak financial condition generally; (i) to require substantial capital to support their operations, to maintain their competitive position, and/or to finance expansion; (j) to face intense competition with respect to the markets in which they operate as well as with respect to important resources, such as high-quality personnel, capital, and financing; (k) to experience financial, operational, legal, and/or other stress or distress to a greater degree than more established companies, whether during periods of economic downturn or otherwise; (l) to be at a disadvantage relative to larger companies with respect to sales or distribution resources, operational and financial controls, or other economies of scale; (m) to be particularly susceptible to adverse publicity and investor perceptions, whether based on fundamental analysis, market rumors, or other reasons; (n) to be highly dependent on certain employees and other key persons; (o) to be highly leveraged; and/or (p) to be susceptible to irregular accounting and/or other fraudulent practices. In addition, Investments in or related to

companies that are small or mid-sized and/or that are at a relatively early stage of their development generally are less liquid and exhibit more price volatility than comparable investments in or related to larger and/or more established companies. There can be no assurance that an Investment in or related to any such company will be profitable, and the realization of any of the foregoing risks could have a material adverse effect on the applicable Investment and/or the applicable client.

### **Illiquid Investments; Inability to Transact**

The Adviser is expected to cause clients to make investments characterized by varying degrees of liquidity, such as investments for which there exists no actively traded secondary market and which are thus highly illiquid or for which there is an absence of readily ascertainable market values. Any illiquidity with respect to the Investments recommended by the Adviser may or may not be anticipated and/or may vary over time. Further, certain types of instruments and certain Investments held by a client may be liquid initially but subsequently may become illiquid as a result of market or other factors. Such illiquidity could last indefinitely and would adversely affect the value of such instruments and Investments. To the extent that any such instruments or Investments are critical to the ability of the Adviser to carry out its investment strategy, such persistent illiquidity could preclude a client from trading in such instruments or Investments and would have a material adverse effect on such client.

Illiquid Investments may constitute a substantial portion of a given client's assets managed by the Adviser and may involve significant transaction costs when they are purchased or disposed of, whether through adverse price movements (whether related to liquidity or otherwise), increased spreads between quotes and dealer mark-ups (which may already be material for such Investments), and/or other transaction costs.

Unless otherwise specified in the applicable Governing Document, the Adviser may choose not to liquidate one or more Investments (quickly or otherwise), whether private or public, if it believes that (a) such liquidations are not warranted by market conditions or other considerations, including price "slippage" and other transaction costs, and/or (b) such Investments may appreciate and liquidating them prematurely could result in a client's forgoing one or more profitable investment opportunities. For example, in the event that withdrawals have been requested by underlying investors in a Fund, the Fund may not have sufficient cash available to fund such withdrawals, and, rather than liquidate certain or any Investments, the Adviser may suspend or delay withdrawals and/or elect to distribute certain Investments in kind.

Conversely, the Adviser may choose to liquidate illiquid Investments (quickly or otherwise) if it believes that such liquidations may be warranted by market conditions or other considerations. The rapid and substantial liquidations that might be initiated by the Adviser in the event of an actual or anticipated withdrawal of a large portion of a client's capital, or an actual or anticipated increase in margin or other collateral requirements, likely would result in substantial liquidity-related losses and would be expected to reduce (possibly materially) the value of the client's portfolio (or, in the case of a Fund, the value of the interests held by both withdrawing and non-withdrawing underlying investors in such Fund). The selection of which Investments held by a client would be liquidated (in whole or in part) under such circumstances would be made by the Adviser. If the Adviser were to liquidate more liquid Investments in order to fund withdrawals, the client (or, in the case of a Fund, the remaining non-withdrawing

underlying investors in such Fund) might be disproportionately exposed to less liquid Investments that may be, among other things, more difficult to price and/or more volatile.

In addition, the Adviser may cause clients to acquire Investments that are or become subject to resale restrictions due to regulatory, statutory, contractual, or other similar provisions that limit the ability of the Adviser to liquidate such Investments. For example, it is generally expected that any Investment acquired by a client prior to the applicable issuer's initial public offering will be subject to a "lock-up" for a period of time after such issuer becomes publicly traded. Similarly, a client's ability to liquidate any public securities that it acquires in a private offering (*i.e.*, any "PIPE" securities) will depend on the issuer's filing of an appropriate registration statement with the SEC, which in turn may be delayed or otherwise unavailable. Such restrictions would prevent clients from liquidating the applicable Investments, would disadvantage clients relative to other investors in the applicable issuer, could cause liquidity-related losses, could result in exposure to unhedged positions, and could have other material adverse effects on clients.

With respect to Investments for which a secondary market does exist, a client of the Adviser could suffer material losses were it unable to open or liquidate positions, whether due to changes or instability in market conditions, trading halts due to regulatory limits (such as daily-price-fluctuation limits), emergency trading bans, counterparty actions, and/or other factors. In addition, the agreement governing a particular over-the-counter instrument held by a client of the Adviser may provide such client's counterparty with discretion as to whether a particular position may be opened or closed under the agreement, regardless of the interests of such client. Unless otherwise specified in the applicable Governing Document, there is no limitation on the portion of a client's portfolio that may consist of such over-the-counter instruments.

## **Risk Premia**

Elements of the investment strategies deployed by the Adviser on behalf of certain clients may involve seeking exposure to certain risk premia. Examples of such risk premia include without limitation "technical" premia (such as "momentum" and "size" premia), "fundamental" premia (such as "value," "defensive," and "quality" premia), and "carry" premia (including "dividend," "coupon," and "theta" or volatility-related premia), although a client may pursue all, some, or none of these risk premia and may pursue any other risk premia or potential risk premia identified by the Adviser.

In addition to the risks outlined elsewhere in this brochure, certain elements of Adviser's investment strategies are expected to be subject to various risks associated with risk premia, which risks may include without limitation the following: (a) the pursuit of momentum premia involves investing in instruments that have consistently outperformed (or underperformed) their peer group, which may expose a client to assets with high volatility as well as to the risk that a client has already missed the opportunity to capture all or a substantial portion of the applicable returns; (b) the pursuit of size premia involves acquiring Investments in issuers with small market capitalizations, which are subject to certain risks to a greater extent than are comparable Investments in large issuers; (c) the pursuit of value and quality premia requires that the Adviser be able to identify assets with prevailing prices that are attractive relative to their intrinsic metrics (in the case of value premia) or companies with higher-quality management, capital efficiency, and/or profitability relative to their peer group (in the case of quality premia), but there can be

no assurance that the Adviser will do so correctly and consistently or that any predicted price increases will in fact occur or be captured by a client; (d) the pursuit of defensive premia involves the acquisition of instruments with relatively low volatility or low beta to one or more market indices, which may deprive a client of profitable investment opportunities in circumstances in which the level of such indices is increasing; (e) carry premia typically involve a client's receiving a premium for bearing certain risks (*e.g.*, the risk of non-repayment of principal in the case of interest-bearing instruments, the risk of issuer defaults in the case of selling credit default swaps, or the risk that the applicable securities may decrease in value in the case of dividend-paying securities), and the occurrence of any such risks, whether due to market stress generally or idiosyncratic factors, could result in substantial losses; (f) the pursuit of theta premia involves, among other things, "selling volatility," for example by writing put and call options with respect to various financial metrics, indices, and/or asset classes, which would expose a client to a variety of unpredictable factors (including supply-and-demand dynamics; interest rate movements; inflation rates; other market forces; trade, fiscal, monetary, and exchange-control programs and policies; and political, social, economic, and other conditions and events), which in turn would expose a client to significant "left tail" risks and could result in substantial loss; (g) certain risk premia may be cyclical in nature and/or are subject to decay (*e.g.*, as their existence becomes well known to other market participants), which makes it difficult to differentiate between temporary cycle-related changes and permanent changes to such risk premia; and (h) Investments related to risk premia may be particularly susceptible to changes in market structure, other unusual market activity, and/or market stress, any of which may cause the applicable risk premia spreads to increase and a client to incur material losses.

More generally, there can be no assurance that the Adviser will be able to identify attractive risk premia, that any such risk premia that are identified will persist, or that the Adviser will be able to successfully exploit any such risk premia. In addition, certain risk premia may entail greater risks than certain other risk premia.

### **Insurance- and Reinsurance-Related Instruments and Products**

The Adviser may cause certain clients to purchase, sell, hold, trade, structure, restructure, and/or otherwise acquire or dispose of instruments that offer direct or indirect exposure to insurance, reinsurance, and insurance- and reinsurance-related risks (collectively, "Insurance-Related Investments"). These instruments may include insurance-linked securities, such as catastrophe bonds, catastrophe options, and catastrophe futures; insurance-linked derivatives; and securities in other public or private entities (insurance- or reinsurance-related or otherwise). Insurance-Related Investments that may be held by a client are generally characterized as having values that are directly or indirectly tied to the occurrence or non-occurrence of catastrophic or other events that are traditionally the subject of insurance, and may be long (*i.e.*, positions that generally decrease in value on the occurrence of specified events) or short (*i.e.*, positions that generally increase in value on the occurrence of such events). Such Insurance-Related Investments generally would require a payment by one party or a forfeit of principal and interest if specified loss thresholds are exceeded or other events occur, resulting in potentially material losses for the client. In the event of gains for the client associated with a short Insurance-Related Investment, the client may be adversely affected by negative public perception associated with such a position earning profits from the occurrence of catastrophic events. Any such perception could have a

material adverse effect on the client's ability to make additional Insurance-Related Investments, whether short or long.

The success of a client's Insurance-Related Investments is largely dependent on the ability of the Adviser to forecast the probabilities and risks of various events. However, such probabilities and risks are difficult to forecast accurately, and any such forecasts will require subjective judgments. In addition, models that seek to forecast such probabilities and risks with respect to the type, frequency, and severity of such events are frequently inaccurate and/or inadequate. Errors or inaccuracies in such forecasts could have a material adverse effect on Insurance-Related Investments that were based in whole or in part on such forecasts. In addition, it is possible that the occurrence of the insured risks (*e.g.*, natural disasters or other catastrophic events) would result in potentially material losses for a client, even in the absence of errors or inaccuracies in such forecasts.

There is often only limited price information available in markets for Insurance-Related Investments. There may not be active secondary markets for certain Insurance-Related Investments. Where a secondary market does exist, there is no assurance that it would have a sufficient number of participants to provide efficient or even adequate pricing or liquidity. As a result, Insurance-Related Investments are generally highly illiquid and their prices may be highly volatile, thus resulting in an increased risk of material losses. This illiquidity and price volatility may be particularly pronounced during certain seasons or around the time of a specific weather-related event, even in cases where a particular Insurance-Related Investment has only a limited apparent connection to any such season or event.

### **Short Sales and Leveraging Effects**

Certain investment strategies deployed by the Adviser on behalf of its clients involve the execution of "short sales." In a short sale, an investor borrows securities from a lender and sells such securities to another person while retaining an obligation to return to the lender an equivalent quantity of the borrowed securities at a later date. Short selling allows an investor to profit from declines in a security's value. Although short sales may be useful under certain circumstances in the pursuit of potential profit opportunities and/or the mitigation of certain forms of risk, they may result in an unlimited loss of capital within a relatively short period of time, whether due to price changes, recalls sought and penalties imposed by lenders of the borrowed securities, short squeezes, unavailability of the securities at the time the Adviser desires to close out the short position, or other causes. Purchasing securities to close out the short position can itself cause the price of such securities to rise, further exacerbating the loss. Financing methods employed or derivative transactions recommended by the Adviser may involve the economic equivalent of short positions in various Investments, which could have economic consequences substantially similar to those caused by the execution of short sales.

Further, the Adviser may in certain circumstances make use of the proceeds of short sales to support an increase in the client's positions in various Investments, resulting in leveraging effects for the client's overall portfolio. It is anticipated that, over the long term, the success of certain investment strategies deployed by the Adviser will be materially affected by the leveraging effects associated with short selling, and applicable clients may employ leveraging effects up to the maximum amount permitted by applicable law and regulation and by such clients' counterparties. Although such leveraging effects may have the effect of increasing returns experienced by such clients in the event of favorable investment results,

returns experienced by such clients will be reduced by the cost of borrowing, and investment losses and other losses will be exacerbated by such leveraging effects (possibly causing substantial losses). Such leveraging effects may increase the volatility of the investment performance of such clients' Investments and, as a result, the returns experienced by such clients.

A number of countries from time to time have imposed restrictions or outright bans on short sales and related transactions in certain types of securities or instruments (such as equity securities in a particular sector), making it difficult or impossible for many market participants (including participants employing investment strategies similar to the investment strategies deployed by the Adviser) either to continue to implement their strategies or to control the risk of their open positions. In addition, short sales historically have been, and continue to be, subject to certain restrictions under U.S. federal securities laws. Other countries also have adopted or may adopt short-selling restrictions and short-position reporting requirements. Any ongoing or future regulatory limitations on short selling, or any ongoing or future requirement to disclose short sales or short positions, may materially adversely affect the Adviser's ability and willingness to implement strategies based on or involving short sales on behalf of clients.

### **Hedging Transactions**

The Adviser is expected to seek to limit certain clients' exposure to certain risk factors through the use of various hedging techniques, including by investing in one or more derivative or other instruments. However, there can be no assurance that such hedging techniques will be employed, will be effective if they are employed, or will result in higher or more stable returns than would have been the case had they not been employed. Moreover, such hedging techniques may result in costs and/or losses that limit or exceed any profits from the Investments being hedged. Similarly, there can be no assurance that profits (if any) resulting from such hedging techniques will exceed any losses resulting from the hedged Investments.

It should be noted that any hedging techniques employed by the Adviser would be intended to reduce a client's exposure to certain risks under certain circumstances and not to reduce all forms of risk. Further, the Adviser generally will not be required to hedge any particular form of risk in any particular situation and generally may, without notice to or the consent of the applicable client (or, in the case of Funds, the underlying investors), cause such client to assume any risk as the Adviser may determine. Moreover, from time to time, all or a portion of a given client's portfolio may have (possibly extensive) unhedged exposure, whether intentional or unintentional, to various market movements, style factors, and other sources of risk anywhere in the world, whether known or unknown. Such sources of risk, which could be extensive, include without limitation changes in the levels and/or volatility of interest rates currency prices, commodity prices, sovereign credit spreads, corporate credit spreads, equity prices, and other markets, as well as correlations between any such risks.

Under certain circumstances, hedging techniques intended to reduce certain forms of risk would actually increase risk, whether due to the unintended market impact of hedging transactions, leverage effects associated with hedging positions, unexpected adverse price movements of a hedging instrument relative to the hedged instrument (*i.e.*, adverse changes in the "basis" between the hedging and hedged instrument), lower liquidity of the hedged and hedging positions relative to an unhedged position, the general risks related to the use of derivative instruments, or other factors. In addition, even where the

Adviser seeks to hedge a particular risk, a suitable hedging transaction might not be identified by the Adviser, might not be available to the applicable client, might be unreasonably expensive, and/or might not be successfully executed.

### **Portfolio Turnover**

Certain investment strategies that are expected to be deployed by the Adviser are based at least in part on short-term considerations and thus are characterized by rapid portfolio turnover. Such rapid turnover is expected, among other things, to cause clients to experience substantial brokerage fees, commissions, and/or commission-equivalents, and/or increased aggregate liquidity costs (or price “slippage”), any or all of which could have a material adverse effect on the investment performance of the Adviser’s investment strategies.

### **Buffers; Cash and Cash Equivalents**

It is expected that a significant portion of the capital of certain clients will be held as buffers to support such clients’ activities. Such buffers may be held in cash or liquid instruments (such as money market instruments, money market mutual funds, government-issued fixed-income securities, and other cash equivalents). There are no limits on how large or small such buffers may be, and the size of such buffers is expected to change (possibly materially) from time to time. Additionally, there is no requirement to maintain such buffers. Such buffers may be used for any purpose, including as a “liquidity cushion” against margin and other capital requirements. However, there can be no assurance that any such buffers would be sufficient in any instance for their intended purposes.

In general, and all else being equal, the existence of cash and cash-equivalent buffers would be expected to reduce the magnitude of returns (whether positive or negative), and thus the volatility of those returns, experienced by a client relative to the returns that would have been experienced by such client in the absence of such buffers. However, this reduction in the magnitude and volatility of returns may not occur to the extent that such buffers are maintained in connection with an increase in the leverage employed by such client.

Although cash and cash-equivalent buffers are expected to be maintained in connection with derivative positions or leverage facilities that may contribute substantially to the returns (whether positive or negative) of a client, cash holdings and investments in cash equivalents are themselves generally expected to yield low or even negative returns, and any positive returns may not exceed the fees and expenses borne by such client. On the other hand, it is expected that certain clients will hold higher-yielding cash equivalents from time to time, whether on a temporary or long-term basis. Such cash equivalents generally are subject to greater risks than lower-yielding cash equivalents, and could result in material losses for the client.

### **Non-Financial Considerations**

Subject to applicable law and the terms of the applicable Governing Document, the Adviser is permitted to take into account (and in the past has taken into account) one or more non-financial considerations (such as environmental, social, political, ethical, corporate governance, and other considerations) in (a) the formulation and execution of investment decisions, (b) the selection of counterparties and service providers, and/or (c) other aspects of the manner in which it conducts its business, whether in relation to



a client or otherwise. The Adviser is permitted, for example, (i) to screen potential Investments to exclude securities of companies engaged in certain businesses or business practices, (ii) to seek to avoid investing in companies or assets affiliated or associated with certain governmental or non-governmental entities or geographic areas, (iii) to exercise proxy voting authority (and/or to take other actions) in a manner designed to promote particular non-financial goals (including in circumstances in which such actions would be contrary to the recommendation of one or more proxy advisory or other firms (if any) retained by the Adviser or its affiliates), (iv) to take non-financial considerations into account when deciding among potential Investments or when deciding to divest from existing Investments, (v) to affirmatively seek to promote certain non-financial goals in its selection of Investments, and/or (vi) to engage or refrain from engaging certain counterparties or service providers based on those entities' ownership or their business practices, or on similar non-financial considerations. In connection with any of the foregoing, the Adviser is permitted to rely on data and/or ratings provided and/or developed by the Adviser, its affiliates, or one or more third parties. There can be no assurance, however, that any such data or ratings will be reliable or consistent with each other, and the use of any such data or ratings by the Adviser may have unintended or adverse consequences for a client. Further, in weighing any such non-financial considerations, the Adviser is expected to take into account its own interests as well as the interests of its affiliates, including in the event that the Adviser believes that such considerations may implicate reputational and other similar concerns for any such persons. For the avoidance of doubt, it is expected that (x) certain environmental, social, political, ethical, corporate governance, and/or other non-financial considerations will also have related financial ramifications and (y) the Adviser typically will consider any such financial ramifications that it determines to be material in connection with the matters outlined in this paragraph.

When utilized, non-financial considerations may affect the outcome of the Adviser's decision-making processes and may cause it to make or dispose of Investments, to forgo investment opportunities, to exercise proxy voting authority, to enter into or terminate counterparty or service provider relationships, or to take other actions in connection with the conduct of its business, in each case in a manner that it would not have done had it taken into account only financial, economic, operational, and/or legal considerations. Such decisions in turn may affect the performance of a client's portfolio, including by causing it to experience lower returns than would have been the case had such non-financial considerations not been taken into account, and/or may have other adverse effects on the client. Clients and underlying investors of Fund clients generally will not be notified of the extent, if any, to which such non-financial considerations are taken into account or the manner in which they affect the formulation and execution of investment decisions, the selection of counterparties or service providers, or other aspects of the manner in which the Adviser conducts its business.

Notwithstanding the foregoing, the Adviser shall not have any obligation to take into account any non-financial consideration in connection with the conduct of any aspect of its business, and the Adviser provides no assurance that it will take into account, or will be successful in implementing any objective with respect to, any non-financial consideration. Further, subject to applicable law, the Adviser will make a separate determination as to whether to incorporate non-financial considerations in its decision-making processes and may make different determinations in this regard over time and/or in different circumstances (including in connection with different investment strategies holding positions in the same or similar instruments). For the avoidance of doubt, in circumstances in which a particular client and one

or more other clients hold investments in the same or related instruments and/or in the same issuers, the Adviser shall be permitted to take (or not to take) non-financial considerations into account in connection with such investments in a manner that is different from the manner in which such non-financial considerations are taken (or not taken) into account in connection with such client. As a result, other clients might take actions that conflict with actions taken by, or that involve a different timing or nature of action taken than with respect to, such client.

### **ERISA-Related Limitations and Other Considerations**

Currently, one or more of the Adviser's separately managed account clients are subject to ERISA, and one or more of the Adviser's Fund clients are deemed to include "plan assets" for purposes of ERISA and/or Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "IRS Code"). (Such separately managed account clients and Fund clients are referred to in this section as "plan assets clients.") Certain risks related to ERISA and such plan assets status are outlined below; however, this outline is not a comprehensive or complete disclosure of all such risks. Further, the provisions of ERISA and Section 4975 of the IRS Code are subject to change and differing interpretation, possibly on a retroactive basis.

Any plan assets client will be subject to investment limitations and/or prohibitions that would not otherwise apply. For example, the issuers of certain types of securities in which a client may invest, including certain asset-backed securities, mortgage-backed securities, participations, collateralized loan obligations, and other similar instruments, are expected to place limitations (or outright prohibitions) on investment in such securities by plan assets clients, which may prevent a client from investing in such securities. In addition, compliance with certain of these limitations is likely to be complex, and accordingly it is expected that the Adviser and/or its related persons will elect in certain cases to avoid investing in certain of these asset classes and/or types of Investments altogether.

Further, it is also expected that, from time to time, the Adviser will agree with one or more benefit plan investors in a plan assets client that is a Fund (a) to restrict the plan assets client from investing in any "qualifying employer securities" related to the applicable benefit plan investor and/or in securities of certain related persons (*e.g.*, securities of fiduciaries of the applicable benefit plan investor and/or of such fiduciaries' affiliates, clients, portfolio companies, and/or other related persons) and/or (b) to otherwise restrict the plan assets client from making certain other Investments; in each case without notice to or the consent of any underlying investor. It is expected that certain of the limitations or prohibitions outlined in this paragraph will relate to instruments that the Adviser otherwise would expect to trade on behalf of such a Fund. Accordingly, to the extent that such limitations and prohibitions constrain the Adviser's ability to deploy a client's investment strategy, such limitations and prohibitions could have a material adverse effect on such client.

In addition to limitations and prohibitions on the instruments in which a plan assets client may invest, it is also expected that the plan assets client will be subject to certain other types of investment limitations. For example, it is expected that, from time to time and without notice to or the consent of any investor, the Adviser will permit the indirect ownership interests of one or more benefit plan investors in a plan assets client that is a Fund to reach or exceed a ten percent (10.0%) ownership threshold, as detailed in the applicable Governing Document. During any time in which such threshold has been exceeded, the

relevant plan assets client would be prohibited (under ERISA and/or pursuant to agreements entered into with benefit plan investors) from entering into certain transactions with the fiduciaries of such benefit plan investors and/or with affiliates of such fiduciaries. Certain such fiduciaries or fiduciary affiliates may be clearing, settlement, brokerage, custody, financing, and other transaction counterparties through which, or with which, the plan assets client would otherwise directly or indirectly trade. As a result, any such prohibition could have a material adverse effect on the plan assets client, including by leading to higher trading costs, worse execution prices, and/or greater concentration of the client's counterparty exposure. Similar prohibitions are also likely to apply with respect to a fiduciary and its affiliates to the extent that such fiduciary advises multiple benefit plan investors that constitute, in the aggregate, a significant portion of the capital base of a plan assets client that is a Fund, or to the extent that such fiduciary advises a separately managed account client that is a plan assets client. ERISA also includes various other rules regarding the types of transactions into which plan assets clients are prohibited or restricted from entering. For example, plan assets clients generally are subject to legal or practical limitations on their ability (a) to engage in securities lending transactions; (b) to enter into principal, cross, or other transactions involving related parties; and/or (c) to extend credit to fiduciaries and fiduciary affiliates of benefit plan investors that exceed the ten percent (10.0%) ownership threshold described above (which, in turn, restricts the plan assets client from investing in certain credit-related instruments sponsored by such fiduciaries or fiduciary affiliates). Any such prohibitions or restrictions could have a material adverse effect on the Adviser's ability to deploy its investment strategy.

With respect to any plan assets client, the Adviser will not be permitted, unless covered by one or more exemptions, to enter into any transaction or engage in any activity if such transaction or activity is prohibited by Section 406 of ERISA or Section 4975 of the IRS Code. In order to qualify for any such exemption, however, the Adviser will rely on the representations, warranties, acknowledgments, and agreements of, and on information provided by, the relevant plan assets client and/or benefit plan investors in a plan assets client that is a Fund. If such a plan assets client or benefit plan investor breaches its agreement with the Adviser or fails to provide accurate or timely information (*e.g.*, regarding the identity of its fiduciaries and/or their affiliates as well as any changes thereto), the Adviser could inadvertently effect a prohibited transaction. Prohibited transactions also could occur in the event that the Adviser fails to properly collect such information, monitor the ownership interest of one or more benefit plan investors in a plan assets client that is a Fund, enforce any of the limitations or prohibitions outlined in this section, and/or interpret its obligations under ERISA. The consequences of effecting any prohibited transaction can include regulatory sanctions for the Adviser, the plan assets client (and/or, for a plan assets client that is a Fund, its underlying investors), and/or the plan assets client's counterparties; the imposition of excise taxes on the disqualified person (which will also be a party in interest); the persons involved in the transaction having to rescind the transaction and pay an amount to a benefit plan investor for any losses realized by such investor or profits realized by such persons; disqualification of any individual retirement account involved in the transaction with adverse tax consequences to the owner of such account; and other liabilities that can have a material adverse effect on such persons. As a result, any prohibited transaction, and any limitations and/or prohibitions related to prohibited transaction considerations that are imposed on a plan assets client by the Adviser and/or by one or more benefit plan investors or other third parties, could have a material adverse effect on the plan assets client and/or, for a plan assets client that is a Fund, on one or more underlying investors.

The Adviser faces conflicts of interest with regard to the matters outlined in this section, including with respect to the determination of whether or not (a) to permit a Fund client to become a plan assets client, (b) to permit the ownership interest of one or more benefit plan investors of a Fund client to reach or exceed the ten percent (10.0%) ownership threshold described in this section, and (c) to agree to restrict a plan assets client that is a Fund from investing in “qualifying employer securities” or from making certain other Investments. The Adviser generally does not expect to provide notice of any such determinations or of any changes to the plan assets status of a Fund to the underlying investors in such Fund.

### **Brokers; Custodians; Other Counterparties**

The brokerage, custody, and other counterparty arrangements utilized by the Adviser and/or its related persons on behalf of clients will expose clients to significant risks, the realization of which could have a material adverse effect on such client.

### **Limited Number of Counterparties**

Clients are expected to engage only a limited number of counterparties to provide clearing, settlement, brokerage, custody, financing, and/or other services, thereby creating a concentration of exposure to such counterparties. Moreover, the successful deployment of the investment strategy deployed on behalf of certain clients may be particularly dependent on one or more counterparties, and replacing any such counterparties may not be possible or may be difficult and/or expensive, which could prevent a client from taking advantage of profitable investment opportunities identified in connection with such investment strategies. Notwithstanding the foregoing, the Adviser may alter or terminate the relationship with any counterparty without notice to or the consent of any client or underlying investor of any Fund client.

Each client generally will hold its assets in bank, brokerage, and/or custodial accounts at various U.S. and/or non-U.S. financial institutions. However, Investments held in accounts with any such financial institutions might not be held in segregated accounts for the exclusive benefit of such client, and repayment may be subject to credit risk associated with a financial institution’s ability and/or willingness to repay the client. Although assets held in an account with a U.S.-registered broker-dealer generally are subject to various client protection rules, clients are not required to maintain all or any of their assets with such persons. In addition, there can be no assurance that such rules will be effective or that any of a client’s counterparties will comply with such rules in all cases.

To the extent that assets of a client are maintained in accounts at non-U.S. financial institutions, such assets will be subject to certain additional risks, including without limitation risks related to the imposition of non-U.S. taxes, greater difficulty in enforcing contractual obligations, less reliable clearance and settlement procedures, and less favorable insolvency laws in the event of the bankruptcy of the applicable counterparty.

In addition, the financial institutions (including broker-dealers, futures commission merchants, and banks) with or through which a client may trade or invest may experience financial difficulties (including decreased lending capacity) that could directly or indirectly result in the forced liquidation of substantial portions of a client’s Investments, or that could otherwise impair the operational capabilities or the capital position of such client. Any financial difficulty experienced by a counterparty of a client could expose the

client to significant additional risks, including credit risks resulting from such counterparty's failure to meet its financial obligations and/or legal risks resulting from the insolvency or bankruptcy of such counterparty or from the changed characterization of a transaction or such counterparty's legal capacity to enter into a financial contract. Client assets deposited as margin in a trading account with a broker-dealer may be used or rehypothecated by such broker-dealer as a part of its general business activities. In the case of a bankruptcy of a counterparty (including a broker, dealer, exchange, or clearinghouse) with or through which a client has dealings, the client might not be able to recover any of its assets held, or amounts owed, by such person, even where such property is specifically traceable to the client. To the extent that such assets or amounts are recoverable, the client might only be able to recover a portion of such property, and any such recovery could take a significant period of time. Prior to receiving any recoverable amount of its property, the client may be unable to determine whether particular positions are held by the affected counterparty, to trade any positions held by such counterparty, or to transfer any positions and/or cash held by such counterparty on behalf of a client, in each case potentially resulting in substantial losses.

Further, brokerage, custody, and/or other counterparties have made, and are expected to make in the future, errors in connection with the services they provide to the Adviser and/or certain clients, including in connection with trading activities. Such errors may include, for example, trade settlement failures, the provision of inaccurate or otherwise flawed data, notification failures (such as failure to notify the Adviser or its related persons regarding a corporate action), and/or other types of human or technological errors. Any such error may be difficult to detect, may not be detected for a significant period of time, and could have a material adverse effect on a client.

Considerations similar to the foregoing would apply with respect to trading and other activities conducted by a client with parties other than financial institutions. A client will be exposed to the risk of counterparty non-performance to the extent it engages in activities in certain non-financial markets. While the counterparty risks in such markets generally are expected to be similar to the risks described above, certain risks may be more pronounced or qualitatively different due to different circumstances in such markets or of such counterparties. The realization of any such risks could have a material adverse effect on a client.

In addition, one or more of the financial institutions and other counterparties that are expected to transact or otherwise engage with clients and/or the Adviser are also expected to have other relationships with the Adviser or its affiliates. Certain of these other relationships are expected to be significant (possibly more significant than any relationship related to a particular client). As a result, such other relationships create incentives for the Adviser and/or its affiliates to refrain from pursuing litigation or taking other remedial action against such financial institutions or counterparties, including in circumstances in which such action would be in the interests of a client.

### **Obligations of Clients; Collateral Requirements**

Any counterparties that are expected to extend credit or otherwise provide leverage to a client generally are entitled to receive margin or other collateral to secure such leverage. In addition, such counterparties are expected to impose certain financial and non-financial covenants or other agreements on any such client, the violation of which would permit the applicable counterparties to pursue various remedies

against the client, even where such violations result from withdrawals by, or other actions of, other clients (if any) that are invested alongside a given client. For example, if a client's net asset value declines below a specified threshold or if a client fails to comply with an intra-day minimum equity requirement, counterparties may require additional collateral, prohibit new Investments under the applicable counterparty agreements, close out one or more positions, and/or terminate credit lines or derivatives contracts. In addition, such counterparties may have the right to take any such actions even absent a violation of a covenant or other agreement, possibly with little or no notice.

Although certain clients are expected to allocate a portion of their available cash to act as a "liquidity cushion" to cover additional collateral requirements, the amount so allocated may not be sufficient to meet the additional collateral requirements imposed by the counterparties providing leverage or warranted by market conditions. A client may be materially adversely affected if (a) it fails to meet any collateral requirements, whether as a result of increased requirements imposed by any such counterparties or as a result of market fluctuations affecting the value of collateral or of the associated Investment; (b) some or all of its Investments are liquidated in order to meet such increased requirements or in response to a violation of a covenant or other agreement; (c) its credit lines are terminated; (d) leverage otherwise becomes unavailable or difficult to maintain, including in the event a client obtains funding on an emergency basis at significant cost or subject to other onerous terms; or (e) short positions become difficult or expensive to maintain. The adverse effects of liquidating Investments would be exacerbated when the applicable Investments are illiquid.

More generally, losses experienced by a client and/or by investors (potentially including other clients of the Adviser) holding positions that overlap with those of a client could lead to the imposition of increased collateral requirements, which could in turn require the liquidation (by a client and/or by such investors) of certain positions, which liquidations may occur at disadvantageous times and/or more quickly than would otherwise be desirable. The market impact associated with such liquidations could in turn lead to further losses (by a client and/or such investors), potentially leading to a negative feedback loop that could result in progressively increasing losses to the client. Such events could also lead to a rapid deterioration in the liquidity associated with the affected positions as well as unexpected adverse correlations among various Investments held by a client, thus further exacerbating the adverse effects on the client. Any of the foregoing could have a material adverse effect on a client.

In the event of a default by a client under one of its derivatives agreements, the applicable counterparty could, among other things, unilaterally terminate Investments governed by such agreements and require the client to pay the replacement cost of the terminated Investments based on prices determined by such counterparty, which may be materially less favorable than market prices. Such agreements also typically include payment or valuation provisions that require determinations by a calculation agent or a valuation agent, which typically will be the client's dealer counterparty. If the Adviser and/or any of its related persons is unable to negotiate favorable terms for such provisions or rights to dispute such determinations, the counterparty may have rights to make determinations that materially adversely affect the applicable Investments. In addition, there can be no assurance that any terms negotiated by the Adviser and/or any of its related persons would be effective in mitigating such adverse actions by a counterparty.

In addition, a client's counterparty agreements (if any) generally are expected to include cross-default provisions that may be triggered in the event the client breaches one of its other counterparty agreements. For example, breach of a net asset value covenant in a prime brokerage agreement could also be a breach of one or more of the client's other agreements with the applicable broker-dealer or its affiliates as well as a breach of the client's prime brokerage agreements (if any) with other broker-dealers. As a result, the adverse impact on a client of the breach of any counterparty agreement may be magnified by the existence of such cross-default provisions.

Various trading strategies or hedging techniques may involve the use of instruments that have different settlement cycles or delivery requirements. Mismatches between cash outflows and inflows may arise regardless of collateral requirements. In addition, although a client generally is expected to be required to post collateral with its counterparties, various counterparties may be unwilling to post collateral with the client, may have higher thresholds to posting collateral than the client, and/or may generally have less onerous collateral requirements than are imposed on the client, in each case whether because of perceptions about the client's creditworthiness or other similar or dissimilar reasons. The disparity between collateral posted and collateral received by a client may create funding problems, resulting in the client's not having cash to fund collateral requirements or settlement amounts even when its trades are profitable.

The documentation for trading by a client (if any) may be inconsistent among its counterparties. As a result, when a client enters into offsetting trades with different counterparties, the client's rights and obligations may to a greater or lesser degree be inconsistent under the "offsetting" agreements. In addition, even if one of a client's custodians or counterparties defaults, the client generally will not be excused from performance on any of its own obligations.

### **Non-Exchange-Based Markets and Privately Negotiated Transactions**

Certain clients are expected to effect transactions directly with counterparties on non-exchange-based markets, such as over-the-counter, interdealer, or private markets, which often have fewer regulatory or other protections than exchange-based markets, and in other privately negotiated transactions. Transacting in these ways could expose a client to significant operational and other risks, delays in acquiring or liquidating the applicable Investments, and/or losses arising from, among other things, (a) an inability or refusal to perform (or a delay in performance) by a counterparty with which a client transacts, whether such inability, refusal, or delay arises out of a counterparty's insolvency or bankruptcy or other causes, including a failure to return collateral posted by a client in a timely fashion; (b) substantial transaction costs, including brokerage fees, commissions, or other commission equivalents, and the fees of attorneys, consultants, and other service providers; (c) the potential for delays and failures in closings, confirmations, and settlements; (d) the potential for counterparties to use operational uncertainty opportunistically in a manner that adversely affects a client; (e) a decline in the value of the applicable Investments or any related collateral during the period in which a client seeks to realize such Investments or enforce its rights with respect to such Investments or collateral; (f) expenses of enforcing such rights; (g) the need to remargin or repost collateral in respect of transferred, assigned, or replaced positions; (h) reduced levels of income and lack of access to such income during the period during which a client seeks to enforce its rights against the counterparty; and (i) legal uncertainty, including uncertainty concerning the enforceability of certain rights under swap and other derivative agreements and possible lack of priority against collateral posted under such agreements.

The occurrence or realization of any of the foregoing events or risks could subject a client to substantial losses. In addition, certain of the risks outlined in this paragraph may be more pronounced in connection with transactions with counterparties, or in markets, located outside of the United States.

Participants in non-exchange-based markets or direct negotiations typically enter into transactions only with those counterparties that they believe to be sufficiently creditworthy, and such participants may not deem a particular counterparty creditworthy even where such counterparty provides margin, collateral, letters of credit, or other credit enhancements. To the extent that a client seeks to engage in such transactions, it will seek to establish and maintain the necessary counterparty business relationships, although there can be no assurance that it will be able to do so. An inability to establish or continue such relationships could limit a client's activities. Moreover, the counterparties with which a client seeks to establish such relationships will not be obligated to extend new credit to the client, may not be contractually obligated to maintain any existing credit lines extended to the client, and may in certain cases be able to reduce or terminate such credit lines at their discretion and without advance notice.

### **Position Limits, Trading Restrictions, and Reporting Requirements**

Certain U.S. and non-U.S. governments, regulators, and self-regulatory bodies have imposed (and may impose in the future) limits, triggers, and/or other thresholds with respect to positions in certain types of securities, futures contracts, and other assets that the Adviser expects to recommend for certain of its clients. Certain positions owned, held, or controlled by related persons (such as the Adviser, its affiliates, or one or more of their clients) are expected to be aggregated for purposes of determining whether such thresholds have been reached or exceeded. With respect to positions managed by such persons, the Adviser or its affiliates may (a) limit trading in such positions in order to avoid reaching such thresholds or (b) if such thresholds are exceeded, (i) dispose of positions to the extent necessary to fall below those thresholds, (ii) be limited in purchasing or selling such positions for a certain period of time, or (iii) be subject to disclosure obligations, filings, fines, limits on short-term trading profits, or other consequences; which in each case could have a material adverse effect on the Adviser's clients. For example, the CFTC, the U.S. commodities exchanges, certain non-U.S. regulators, and certain other exchanges have established limits referred to as "speculative position limits" or "position limits" on the maximum net long or short (or, for some commodities, the gross) positions that any person or group of persons may own, hold, or control in certain futures or options on futures contracts, and such rules generally require aggregation of the positions owned, held, or controlled by related persons. Accordingly, a client's positions in certain futures contracts, along with certain linked futures and options on futures contracts, will require aggregation with economically equivalent positions held by other clients in applying such limits on net long or net short positions in such contracts. In certain such cases, such other clients will utilize the full amount of available position limits for their own benefit, and, as a result, the original client will be required to limit its use of futures or liquidate its positions on such exchanges. When multiple entities are affected by such thresholds, the Adviser or its affiliates may determine to allow the consequences to fall disproportionately on certain entities, which could have a material adverse effect on one or more of the Adviser's clients.

Existing and prospective clients and their underlying investors should be aware that in 2020 the CFTC adopted position limit rules for futures contracts on twenty-five agricultural, energy, and metal commodities, along with certain linked futures and options on futures contracts, as well as economically



equivalent swaps on the foregoing. Such rules and any additional rules or rule amendments adopted by the CFTC in the future may hinder the ability to trade such instruments and could have a material adverse effect on one or more of the Adviser's clients.

The CFTC has also adopted rules and rule amendments that incorporate aggregation criteria with respect to position limits that are more restrictive in some respects than the previous rules. These rules and rule amendments require, among other things, that a person aggregate its positions in all pools or accounts that have substantially identical trading strategies. This requirement applies if a person holds positions in more than one account or pool with substantially identical trading strategies, or controls the trading of such positions without directly holding them, notwithstanding the availability of any exemption. In the event that a person were to be subject to these aggregation requirements with respect to its investment with the Adviser, it is not expected that the Adviser would make any change to its management of the applicable Investments or to its investment approach in order to permit such person to comply with such requirements. Moreover, the Adviser generally is not expected to provide information to such person about its clients' particular positions. Any such lack of information would undermine such person's ability to comply with such requirements. Clients and underlying investors in a Fund are responsible for complying with this requirement in connection with investments managed by the Adviser and any of its other investments and should consult with their own legal advisors with regard to this requirement.

The Adviser is expected to engage in activities, or cause a client to engage in transactions or activities, that, as a result of ownership of a security or other instrument by such client, another client, or for other reasons, would require filings with a governmental agency, public disclosure, and/or compliance with other regulatory requirements, such as beneficial ownership reporting, mandatory takeover offers, and/or certain restrictions on trading or on other client or Adviser activities. In addition, the Adviser may be restricted (by law or by its or its affiliates' internal policies) in its ability to trade a particular Investment or may determine to limit or prohibit the participation of the client in a particular Investment or to cause a client to liquidate a particular Investment at an inopportune time. Compliance with filing and other requirements (including additional reporting requirements imposed in the future on the Adviser and/or its clients) may result in additional costs to a client and/or may delay its ability to trade, or to respond in a timely manner to changes in the markets with respect to, the applicable security or other instrument. The regulatory regimes outlined above may change over time, and any such changes may materially adversely affect one or more clients.

### **Publicly Available Information; Disclosures to Clients and Underlying Investors**

Certain information regarding clients of the Adviser and/or their Investments is likely to be required to be made publicly available, which could have a material adverse effect on the value of, or the Adviser's plans with respect to, such Investments. Further, changes in law or regulation could increase the number and frequency of required disclosures applicable to the Adviser and/or its clients and/or the types or amounts of information required to be disclosed. In addition, the Adviser may have clients that may be (or whose underlying owners may be) required under applicable law (such as freedom of information laws or ERISA) to make publicly available certain information provided by (or on behalf of) the Adviser to such client (*e.g.*, any Investment-related information reported by benefit plan investors on IRS Form 5500). Moreover, such clients or underlying owners, other persons with access to information regarding a client and/or its investments or investment strategy (as applicable), and their respective employees,

representatives, and agents, whether or not subject to such laws or other similar disclosure requirements, could disclose such information, including in violation of their confidentiality obligations to the Adviser or the client.

Because various aspects of the Adviser's investment strategies are based upon quantitative trading methods or other proprietary information, any of the foregoing disclosures of information would increase the already material risk that other market participants will seek to use such information to their advantage (such as by reverse engineering the Adviser's investment strategies, by seeking to adversely affect the prices of the Investments recommended by the Adviser to its clients, by "frontrunning" a client's Investments, by causing a client to prematurely liquidate Investments, or by other actions), which could have a material adverse effect on one or more clients.

The risks described above will be exacerbated for clients deploying a given investment strategy to the extent that the Adviser or a related person deploys an identical or similar strategy in one or more separately managed account(s) for individual clients (which such parties currently do with respect to certain strategies and may do at any time with respect to any strategy), as a separately managed account client generally would have complete information about the positions and trading in such account. Moreover, any decision by the Adviser to provide a client's underlying investors with detailed information regarding such client's Investments would further exacerbate such risks.

### **Competition; Common Investor Risk**

Changing, evolving, and maturing markets, as well as an increase in the number of market participants employing strategies similar to or otherwise in competition with the strategies employed by the Adviser, may make it significantly more difficult to identify and/or participate in profitable investment opportunities. Certain of these market participants are expected to possess competitive advantages over the Adviser or any of its clients, which may include without limitation superior technology; greater expertise, experience, or resources; superior access to investment opportunities or information; lower cost of capital; fewer regulatory constraints; and/or higher risk tolerances. There can be no assurance that any effort by the Adviser to minimize any competitive disadvantages will be successful.

The Adviser and its clients are expected to face other competitive challenges, whether due to regulation, limited liquidity, crowded markets, increased competition for personnel, or other similar or dissimilar factors. Competition and its challenges may have a material adverse effect on the Adviser and/or its clients.

In addition, a substantial number of other market participants deploy quantitative tools and/or investment strategies that overlap to varying degrees with the Quantitative Tools and/or elements of the investment strategies that the Adviser deploys on behalf of certain clients. The activities of such other market participants could have a material adverse effect on such clients. For example, market events such as the "flash crash" of May 6, 2010 illustrate how the behavior of one or a small number of market participants can cause dramatic movements in the prices of individual securities and/or the market as a whole. The systematic nature of the investment strategies deployed by the Adviser on behalf of certain clients and the resulting trading activity is expected to make such clients' portfolios particularly susceptible to such movements, which could have unforeseen effects on one or more elements of such investment strategies and/or on the interactions among such elements. Further, to the extent that such

overlapping quantitative tools and investment strategies react in similar ways to economic or other market events, it will be more difficult or expensive to purchase or dispose of particular Investments than it would be otherwise. Similarly, events such as the “quant crisis” of 2007 demonstrate the ways in which liquidations of overlapping positions may create a negative feedback loop (exacerbated by leverage) that results in progressively increasing losses to such client, rapid deterioration in the liquidity of the affected positions, and unexpected correlations among various Investments held by such client’s portfolio. The common investor risks outlined in this paragraph are particularly acute with respect to forecasts or models that relate to well-known phenomena (for example, but without limitation, phenomena that have been widely covered in publicly available academic or competitor research).

### **Third-Party Litigation; Regulatory Actions**

The activities of the Adviser and its clients subject them to the risk of becoming involved in claims or assertions of liability by third parties, whether in connection with one or more of the Investments, the operation of a Fund, and/or the operations of the Adviser or its related persons. The risk of such claims will be heightened in the event that a client or a particular Investment sustains losses or in circumstances in which the Adviser exercises management and/or other control of, or significant influence over, a particular Investment.

Moreover, the activities of the Adviser and its related persons are subject to various legal and regulatory regimes around the world. The scope and complexity of the regulatory environment in which the Adviser and such other persons operate increases the risk of regulatory investigations and enforcement actions involving the Adviser, its affiliates, and/or its clients. Such actions may arise out of routine or targeted examinations, be prompted by particular events or allegations, including events in which the Adviser has no involvement, or be brought for other reasons.

In the event that any related person of the Adviser is involved in a legal dispute or a regulatory investigation or enforcement action, whether or not related to the Adviser or its clients, various related persons of the Adviser may incur substantial costs, including potential judgments or settlements as well as the costs of legal counsel and other professional experts, in investigating relevant facts, contesting allegations, and pursuing defenses. Potential losses from a legal dispute or potential regulatory investigation could exceed, possibly materially, the capital invested in the activities giving rise to such dispute or investigation. Moreover, various related persons of the Adviser may devote a substantial amount of their time and attention to such legal or regulatory matter, which may reduce their effectiveness in managing client assets. The prospective costs associated with legal and regulatory matters may provide an incentive for the Adviser to incur significant costs to settle a particular matter, even if the Adviser believes that the claims, assertions, investigations, or actions against it are unfounded and/or that its defenses are meritorious. Conversely, the Adviser may elect not to settle any matter, even if contesting such matter may result in significant cost and risk of an adverse outcome that may be worse than a proposed settlement. The Adviser generally will have complete discretion in resolving any claims, assertions, investigations, and actions against it or an affiliate, including with respect to the negotiation and acceptance of any settlement.

Under the applicable Governing Documents, the Adviser and/or its related persons may be entitled to indemnification by the client in connection with certain of the matters described in this section. In

addition, where applicable, operating costs are expected to include costs associated with any actual or potential litigation, arbitration, mediation, investigation, examination, information request, or other proceeding. Accordingly, the fees and costs related to such matters, including amounts paid pursuant to settlements or judgments, would be borne by such client (and thus the underlying investors of such client, if applicable). In addition, an adverse decision in, or a settlement of, a legal or regulatory matter could impose substantive limitations on the activities of the Adviser, its affiliates and/or its clients, including limitations on such persons' ability to deploy a particular investment strategy, invest in particular markets or types of Investments, or raise capital in certain jurisdictions or from certain types of investors.

Moreover, the public disclosure of a legal or regulatory matter involving any related person of the Adviser, whether or not such person has any involvement with the particular investment and whether or not an adverse decision or settlement is reached, may have a material adverse effect on the Adviser, its affiliates, and/or its clients. Such a disclosure could cause reputational damage to the Adviser or its affiliates, which in turn may prompt investor withdrawals, limit the Adviser's access to investment, financing, and/or other opportunities, and/or increase the cost or difficulty of attracting and retaining employees. Further, public disclosures concerning a legal or regulatory matter may include confidential and/or competitively sensitive information, the disclosure of which could have a material adverse effect on the Adviser and/or on its Investments. It is expected that the Adviser and/or its related persons will settle (or not pursue) certain matters in circumstances in which they believe that such disclosures may be required, even if pursuing such matters could result in a monetary recovery for a client.

### **Market Manipulation**

Many markets have been affected by alleged or actual price manipulation, insider trading, and other forms of market abuse engaged in by certain market participants, notwithstanding the high degree of regulation that may be imposed on them. Aside from possible outright fraud, manipulation, and direct abuse, prices in certain markets may be subject to improper influence as a result of the price-setting process or other reasons. Consequently, market participants may have the ability to improperly influence such prices. In addition, market participants and/or other persons may interfere with the Adviser's attempts to purchase, sell, hold, trade, structure, and/or restructure Investments. Such interference could take the form of exerting improper influence over one or more counterparties, service providers, and/or other persons as well as over any administrative, regulatory, legislative, judicial, or other processes relevant to the applicable Investment. There can be no assurance that the Adviser will be able to predict, detect, or act to avoid any such improper influence.

Any fraud, price manipulation, market abuse, or improper influence in the future could have a material adverse effect on a client. Moreover, there can be no assurance that any redress would be available to, or would be practical for, a client to pursue with respect to any particular fraud, price manipulation, market abuse, or improper influence.

### **Force Majeure Events; Climate Change**

*Force majeure* events, such as (but without any implied limitation) terrorist attacks, acts of war, insurrections, epidemics or pandemics, or natural disasters, typically cannot be predicted, and it is not expected that a client's portfolio would be hedged or insured against any such event.

Similarly, risks created by climate change and/or extreme or unpredictable weather conditions (which may be more frequent and/or severe as a result of climate change) may materially adversely affect a client, the companies in which a client invests, and/or the Adviser. Such persons will be subject to risks arising out of the physical impacts of climate change, which may include rising sea levels; extreme temperatures; changes to sunshine, precipitation, and/or wind levels or patterns; more frequent and/or severe droughts; an increase in the frequency or severity of hurricanes and tropical storms; and/or other extreme weather conditions. Such physical impacts may in turn lead to loss of life; property damage and other forms of direct or indirect financial loss; economic and operational disruptions; a reduction in the availability or quality of natural resources; and/or geopolitical conflict. Further, clients, the companies in which clients invest, and/or the Adviser will be subject to additional risks related to climate change, such as changing regulatory requirements, changes in or the cessation of certain business operations, and/or litigation related to the foregoing. Such persons also may experience adverse reputational, commercial, and/or other consequences if they are seen as having a negative impact on the climate or environment. However, there can be no guarantee that any such person will attempt to mitigate such effects or that any such attempt would be successful.

In addition, the performance of certain of the Adviser's investment strategies may be highly volatile in general, and extreme and/or unpredictable weather conditions may, among other things, materially increase volatility in certain markets in which a client may invest.

The possibility or occurrence of any of the events or phenomena outlined above could (a) materially adversely affect the personnel and/or operations of the markets in which a client invests and/or of the Adviser, (b) result in material disruptions to and/or increased regulation of markets in which a client directly or indirectly participates, and/or (c) otherwise have a material adverse effect on a client or any of its Investments.

### **Changes in Law; Governmental Intervention**

Changes in tax, securities, reorganization, insolvency, lender liability, borrower protection, data privacy, regulatory capital, and other laws, regulations, rules, or policies, as well as changes in accounting standards, changes to exchange and self-regulatory organization rules, governmental intervention in private markets generally, and other factors (any of which could have a retroactive effect), may decrease the number of investment opportunities for the Adviser's clients or eliminate such opportunities altogether, may decrease returns associated with certain Investments or certain elements of the Adviser's investment strategies, or may otherwise materially adversely affect the interests of the Adviser's clients. For example, the regulatory and tax environment for derivative instruments is evolving, and changes in the regulation or taxation of derivative instruments may materially adversely affect the value of derivative instruments held in client portfolios and the Adviser's ability to pursue investment strategies on behalf of its clients.

Similarly, because elements of the Adviser's systematic trading strategies are expected to include executing a significant number of trades and/or orders, the introduction of a transaction or similar tax in one or more jurisdictions or the introduction of order-to-trade ratio limits, fees, minimum order resting periods, or new registration or market-making requirements related to such ratio limits could have a material adverse effect on the applicable client. A number of regulators have adopted or proposed certain

rules, and may engage in additional rulemaking, relating to market structure that could create barriers to certain types of trading and forms of execution and could affect the use of “dark pools,” “sponsored access,” high frequency trading, and algorithmic trading strategies. Similarly, certain regulators have adopted, and other regulators have proposed or considered, regulations requiring particular record-keeping related to automated trading strategies, the adoption of certain policies or procedures related to the creation, modification, and implementation of computer code controlling such strategies, and/or disclosure of such code to regulators. The adoption of such regulations could increase the cost and decrease the expected returns of such trading strategies, limit the flexibility of the Adviser to deploy or modify such trading strategies, and/or result in the disclosure of confidential information about such trading strategies that could allow competitors to reverse engineer or mimic such strategies and thereby harm the returns of such strategies. More generally, regulators appear to be applying heightened scrutiny to sophisticated trading technology and execution methods, which may be in part a response to extreme volatility events in the equities and futures markets around the world.

In addition, the Adviser and/or its related persons may determine to take one or more actions in connection with actual or anticipated changes in such laws, regulations, rules, or policies (or in connection with other actual or anticipated governmental actions or any of the other matters outlined in this section), including actions intended to reduce, eliminate, or modify the applicability or impact of any such actual or anticipated changes, governmental actions, or other matters (*e.g.*, liquidating one or more Investments or refraining from purchasing such Investments in the first place). There can be no assurance, however, that the Adviser or its related persons will in fact take such actions, that any actions that they do take will be effective, or that any such anticipated changes, governmental actions, or other matters will in fact occur, whether in the manner anticipated by the Adviser or its related persons or at all. Any such actions (or the failure to take any such actions) and/or any such changes, governmental actions, or other matters (or their absence) could instead have a material adverse effect on a client.

In addition to changes in law and regulation applicable to the Investments and markets in which clients invest, the regulatory environment for leveraged investors and private investment funds is also evolving generally. The ability of the Adviser’s clients to pursue their respective investment objectives may be materially adversely affected by additional regulatory requirements or changes to regulatory requirements applicable to such clients, the Adviser or its related persons, and/or service providers and other existing or prospective counterparties of a client, such as requirements that may be imposed due to other activities of the Adviser or its related persons or as a result of the investment in a particular Fund by certain investors or types of investors (such as investors subject to the Employee Retirement Income Security Act of 1974, as amended, natural person investors, and/or investors based in certain jurisdictions). Moreover, the Adviser and its clients and/or service providers or agents of any of the foregoing may from time to time be required or may determine, each in its sole discretion, that it is advisable to disclose certain documents and information about a client and/or its underlying investors (and/or such client’s and/or investors’ beneficial owner(s)), including Investments held by a client and the names and level of beneficial ownership of such client, to (a) regulatory authorities of certain jurisdictions that have or assert jurisdiction over the disclosing party or in which such client directly or indirectly invests or (b) any existing or prospective counterparty of or service provider to the Adviser and/or its clients.

After the global financial crisis that began in 2008, several actions of the U.S. Congress, the SEC, and other U.S. and non-U.S. governmental entities sought to impose more oversight on private investment funds and their managers. For example, the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and related regulations generally have resulted, and may continue to result, in more onerous regulation of private investment funds and their managers than was applicable in the past. It is possible that additional regulations adopted in the future could directly and/or indirectly affect the types of investment opportunities available to private investment funds.

Likewise, regulatory developments in Europe have altered, and are expected to continue to alter, the financial and investment landscape for private investment funds. For example, the European Union’s Alternative Investment Fund Managers Directive (the “AIFMD”), which came into effect in 2014, subjects managers of private investment funds to additional regulatory hurdles, and the establishment of the European Securities and Markets Authority, the European Banking Authority, and the European Insurance and Occupational Pensions Authority has created centralized bodies with the power to regulate the securities, banking, and insurance industries within the European Union. In addition, the European Market Infrastructure Regulation, which came into effect in 2012 and 2013, along with related regulations generally, have resulted, and are expected to continue to result, in more onerous regulation of private investment funds and their managers than was the case in the past. The Markets in Financial Instruments Directive II and accompanying legislation at both the European Union and member-state level, which came into effect at the beginning of 2018, imposed a range of additional regulatory burdens on financial services firms and has resulted, and is expected to continue to result in, changes to financial market structure in the European Union. These developments have the potential to increase the costs of the Adviser’s activities in Europe, alter the manner in which the Adviser conducts investment activities, reduce the expected returns from (or even preclude) certain types of investment activities, and otherwise adversely affect the Adviser and/or its clients.

In addition, the United Kingdom’s departure from the European Union in January 2020 has led to volatility in the financial markets of the United Kingdom and, to a lesser extent, across Europe and may also lead to weakening in consumer, corporate, and financial confidence in such markets. The long term economic, legal, regulatory, political, and social framework to be put in place between the United Kingdom and the European Union is unclear at this stage, and negotiations are likely to lead to ongoing political and economic uncertainty and periods of volatility in both the United Kingdom and in wider European markets for some time. This uncertainty and volatility, as well as any ultimate failure to negotiate such framework, could materially adversely affect the Adviser and/or its clients with respect to its investment activities in Europe. The decision made in the British referendum may lead to a call for similar referendums in other European jurisdictions, which in turn may cause increased economic volatility in the European and global markets. Any such decisions to leave the European Union may affect the laws and regulations applicable to private investment funds and their managers.

It is impossible to predict the impact on the industry, the Adviser, and/or any of the Adviser’s clients of any new legislation or other requirements, or of the heightened interest generally in regulation and oversight of private investment funds and their managers or other market participants. Legislative and/or regulatory changes generally, and the focus on such funds, managers, and market participants in

particular, may prove disruptive to the industry and/or to the Adviser and, consequently, could have a material adverse effect on the Adviser's clients.

Financial, economic, and societal events over the past several years, including the coronavirus pandemic that emerged in early 2020, have caused pervasive and fundamental disruptions in the global financial markets, leading to extensive governmental intervention, both temporary and permanent. Such intervention may, in isolation or together with other factors, cause such markets to exhibit higher volatility, less liquidity, greater correlation within such markets, and/or greater correlation (or increased negative correlation) of certain markets with other markets than would be the case in the absence of such intervention. Further, such intervention has, in certain cases, been implemented on an "emergency" basis (as in the case of the short sale bans implemented in several European jurisdictions in early 2020), suddenly hindering or eliminating market participants' ability to implement certain investment strategies or to manage the risk of their outstanding positions. These interventions have at times been unclear in scope and application, resulting in confusion and uncertainty that in turn have been materially detrimental to the efficient functioning of the markets as well as of previously successful investment strategies. The apparent inconsistency that characterized such governmental actions caused severe losses for a number of market participants and contributed to uncertainty in and resulting illiquidity of the markets. Similar dynamics and effects may occur in the future, which could have a material adverse effect on the Adviser's investment strategies.

It is impossible to predict what additional interim or permanent government restrictions may be imposed on financial markets and/or the effect of such restrictions on the Adviser's investment strategies.

However, the Adviser believes that there is a high likelihood of significantly increased regulation of certain financial markets. Such increased regulation could have a material adverse effect on the Adviser's clients.

#### **Additional and/or Different Strategies, Companies, Asset Classes, Regions, and/or Markets**

Subject to the terms of the applicable Governing Document, the Adviser may invest certain clients' assets in additional and/or different strategies, companies, asset classes, regions, and/or markets not outlined in this brochure. Such investment decisions will be based on one or more factors that the Adviser may deem relevant, including liquidity constraints and the availability of opportunities that it deems attractive. The Adviser is permitted to invest certain clients' assets in strategies that have investment styles, investment returns, leverage, and associated risks that are different (possibly materially) from those outlined in this brochure. The Adviser may allocate a portion of the applicable client's assets directly or indirectly to strategies, companies, asset classes, regions, and/or markets with or in which the Adviser has limited or no familiarity or experience. Because such strategies, companies, asset classes, regions, and/or markets may, among other things, be more difficult to evaluate and/or monitor, they may expose clients to greater risk and lower returns than those with which the Adviser has more extensive experience. There can be no assurance that any decisions outlined in this paragraph will be successful or will not have a material adverse effect on a client.



## **Item 9: Disciplinary Information**

In April 2014 and June 2014, DESCO LP submitted notifications of net short positions in the shares of a Swedish issuer to the Swedish Financial Supervisory Authority (the “SFSA”) pursuant to the European Union short-selling regulation (the “Regulation”) after the next-day notification deadline in the Regulation. In each case, the delay in the submission of the net short position notification was the result of unintentional human error, and DESCO LP submitted the required notification promptly upon its own discovery of such error. In January 2015, the SFSA imposed penalty fees of approximately US \$1,150 (in the case of the April 2014 notification) and US \$10,500 (in the case of the June 2014 notification) on DESCO LP for failure to report within the time period prescribed by the Regulation. The fines became effective in April 2015 and were paid by DESCO LP in May 2015.

In November 2012 and October 2013, certain entities in the D. E. Shaw group advised by certain of DESCO LP’s Relying Advisers unintentionally violated a position limit applicable to natural gas futures traded on the New York Mercantile Exchange (“NYMEX”) and ICE Futures U.S., Inc. (“ICE”). In each case, the violation was discovered prior to the open of trading on the day after which it occurred, and corrective trades were placed soon thereafter to bring the applicable positions into compliance. With respect to each violation, DESCO LP submitted to NYMEX a settlement offer in which DESCO LP agreed to pay a fine of \$25,000 (in the case of the November 2012 violation) and \$75,000 (in the case of the October 2013 violation). NYMEX entered orders effective on May 1, 2014, accepting the settlement offers. ICE issued a warning letter to the D. E. Shaw group for the November 2012 violation. With respect to the October 2013 violation, DESCO LP entered into a settlement agreement with ICE, effective January 16, 2015, in which DESCO LP agreed to pay a fine of \$20,000 and to cease and desist from such position limit violations.

DESCO LP received a request for information from the SEC in June 2013 relating to compliance with Rule 105 of Regulation M under the Securities Exchange Act of 1934 (the “Exchange Act”) and identified five inadvertent violations of Rule 105 from 2010 through 2012. DESCO LP submitted an Offer of Settlement to the SEC, in which DESCO LP consented to cease and desist from such violations and to the payment of \$667,492.37, including disgorgement of \$447,794.00, prejudgment interest of \$18,192.37, and a civil monetary penalty of \$201,506.00. The SEC entered an Order on September 16, 2013, accepting the Offer of Settlement.

DESIM believes there are no other legal or disciplinary events that are material to a client’s or prospective client’s evaluation of its advisory business or the integrity of its management.

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

Certain management persons of DESIM are registered representatives of D. E. Shaw Securities, L.L.C. (“Securities LLC”), which is a related person of DESIM and a broker-dealer registered under the Exchange Act and a member of the Financial Industry Regulatory Authority, Inc.

DESIM and certain of its related persons are currently registered as commodity pool operators (each, a “CPO”) pursuant to the Commodity Exchange Act (the “CEA”) and are members of the National Futures Association (the “NFA”). Certain other of DESIM’s related persons have been listed with the CFTC as

commodity pools and will be operated as “exempt pools” in accordance with Commodity Futures Trading Commission Rule 4.7. DESIM is also registered as a commodity trading advisor with the CFTC. Certain management persons of DESIM are registered with the NFA as associated persons of DESIM and each of DESIM’s related persons that is registered as a CPO.

### **Related Persons**

The Adviser is part of an international financial services firm. The Adviser acts as managing member and/or manager for certain of its related persons, and this activity may be considered to be separate from the provision of investment advice. For purposes of this brochure, the Adviser does not consider itself to be engaged in the business of its related persons.

DESIM provides investment advice to certain Funds in its capacity as their managing member or manager and also acts as investment adviser to other clients.

Subject to applicable law, the Adviser may use for clients, or suggest or recommend to clients, placement agent services offered by the Adviser’s related person, Securities LLC. It is expected that Securities LLC will not be compensated by clients for such services.

The Adviser’s related person, DESCO LP, is registered with the SEC as an investment adviser under the Advisers Act, is registered as a CPO pursuant to the CEA, and is a member of the NFA. The Adviser licenses certain intellectual property from DESCO LP and utilizes certain assets and resources of DESCO LP or the Adviser’s other related persons (including without limitation certain employees of DESCO LP or such other related persons) in connection with its own investment advisory activities. All of the persons treated as the Adviser’s employees in this Form ADV are employees of DESCO LP or such other related persons; may share their time among the Adviser, DESCO LP, such other related persons, and/or affiliates of the foregoing; and receive compensation and other benefits from DESCO LP, such other related persons, and/or such affiliates. Certain such persons devote a significant portion (and in some cases substantially all) of their business time and attention to the conduct of DESIM’s activities generally. DESIM makes all determinations regarding whether, when, how, and to what extent to deploy such persons and the intellectual property licensed from DESCO LP; accordingly, any such deployment will be subject to the overall supervision of DESIM. Moreover, DESCO LP has no portfolio management, investment advisory, or fiduciary responsibilities with respect to any client of DESIM, and DESCO LP does not manage, monitor, or oversee any trading decisions, compliance with applicable investment objectives, or any other aspects of the portfolio management activity of any such client. In addition, as agreed between the entities, the Adviser may reimburse DESCO LP for certain expenses and DESCO LP may reimburse the Adviser for certain expenses.

The Adviser’s related person, D. E. Shaw & Co. (London), LLP (“DESCO London”) has received permission from the U.K. Financial Conduct Authority under Part 4A of the Financial Services and Markets Act 2000, authorizing it to engage in certain regulated activities in the United Kingdom. Pursuant to that authorization, DESCO London provides investment management and other services to the Adviser that ultimately are for the benefit of certain of the Adviser’s advisory clients; the Adviser or DESCO LP (on behalf of the Adviser) compensates DESCO London for those services. DESCO London may utilize certain of the Adviser’s employees in connection with its own investment management activities. In addition, as agreed between the entities, the Adviser may reimburse DESCO London for

certain expenses and DESCO London may reimburse the Adviser for certain expenses. Julius Gaudio and Chris Zaback are Management Committee members of DESCO London. Mr. Gaudio is a Managing Director of DESCO LP and a member of that entity's Executive Committee. Mr. Gaudio, who joined DESCO LP in 1993, received his A.B. from Harvard University. Mr. Zaback joined DESCO LP in 2008 and is a Managing Director of DESCO LP. Mr. Zaback graduated from the University of Notre Dame with a degree in accounting and received his M.B.A. with honors from Columbia University's Graduate School of Business.

The Adviser's related person, D. E. Shaw & Co. (Asia Pacific) Limited ("DESCO AP") is licensed with the Securities & Futures Commission in Hong Kong to engage in certain regulated activities, pursuant to which DESCO AP provides asset management and other services to the Adviser that ultimately are for the benefit of certain of the Adviser's advisory clients; the Adviser or DESCO LP (on behalf of the Adviser) compensates DESCO AP for those services. DESCO AP may utilize certain of the Adviser's employees in connection with its regulated activities. In addition, as agreed between the entities, the Adviser may reimburse DESCO AP for certain expenses and DESCO AP may reimburse the Adviser for certain expenses. The directors of DESCO AP are Julius Gaudio, Chris Zaback, and Kevin Patric. Mr. Patric, who joined the D. E. Shaw group in 2003, received his B.S. from the University of Pennsylvania. Please refer to the preceding paragraph for the education and business backgrounds of Mr. Gaudio and Mr. Zaback.

### **Certain Conflicts of Interest**

The Adviser, its related persons, and its and their directors, partners, officers, and employees have actual and potential conflicts of interest with respect to the Adviser's clients. Such conflicts arise from, among other things, the management and operation of a client, as well as from other activities that are unrelated or only partly related to the business and affairs of any particular client (*e.g.*, but without implied limitation, advising or managing other clients) ("Other Activities"). Such Other Activities partially or exclusively benefit the Adviser and/or its related persons (including DESCO Favorable Entities), and the Adviser and/or one or more related persons will make all decisions with respect to any conflicts of interest with respect to a client and/or any underlying investors, including conflicts involving the management and operations of a client or any Other Activity. For the avoidance of doubt, references to Other Activities pursued by related persons in this brochure include Other Activities pursued, directly or indirectly, by the Adviser and/or one or more DESCO Favorable Entities for their own benefit. No assurances can be given that any of the matters outlined in this section, or any decision made by any related persons with respect to such matters, would not materially adversely affect a client or one or more underlying investors and/or would not benefit one or more related persons (including DESCO Favorable Entities) or other clients. In addition, because related persons are likely in the future to expand the number, variety, and/or focus of their Other Activities, conflicts of interest (whether or not outlined in this brochure) are expected to become more frequent and/or pronounced over time.

Although this section outlines certain conflicts of interest, it does not purport to identify or describe all such conflicts. Disclosures regarding conflicts of interest and their resolution generally will be contained in the applicable Governing Document, this brochure, and/or another document. Other documents, such as financial or periodic reports, furnished to clients or investors also may contain disclosure regarding conflicts of interest.

Any of the conflicts of interest outlined below and/or in the Governing Document for the applicable client, as well as any other risks that are not identified, could result in material losses to such client (and the underlying investors in a Fund).

It should be noted that many of the conflicts of interest outlined under one caption or heading are applicable to one or more other captions and headings.

The Adviser and its related persons have policies to address certain of the conflicts outlined in this Item 10. However, any such policies will not necessarily eliminate the effects of such conflicts of interest. Moreover, in certain instances the application of such policies is likely to result in an economic benefit to certain clients (including DESCO Favorable Entities) or to the Adviser's related persons and not to other clients, and/or an economic harm to one or more clients.

### **Conflicts Arising from Management and Operations of Clients**

Various conflicts of interest arise from the management and operations of the Adviser's clients. For example, the Adviser and/or its related persons have incentives to allocate expenses to a client to the extent that doing so would reduce the amount of expenses that would be borne by the Adviser or such related persons (either directly or, for example, indirectly through their ownership of other Funds). Such conflicts arise in a variety of scenarios, including in determining which expenses relate to the general operations of a client and/or to the acquisition, holding, monitoring, maintenance, or disposition of actual or potential Investments, in which case they will be deemed to be operating costs and will be borne by the relevant client, and which expenses are solely costs of the Adviser or its related persons that should not be borne by the relevant client.

Such conflicts are also expected to arise when determining which portions of operating costs are allocable to clients of the Adviser or its related persons that have different expense reimbursement provisions according to their respective Governing Documents. For example, a given Fund may have more generous expense reimbursement provisions than another Fund, which may give the Adviser or its related persons an incentive to deploy more resources on behalf of the original Fund. In addition, the breadth of the definition of "operating costs" creates an incentive for the Adviser or its related persons to incur greater expenses than such entities would incur if such expenses would not be borne by a Fund.

As an additional example, for clients from which the Adviser or its related persons receive a Performance Charge, the existence of such Performance Charge, along with the absence of provisions requiring such Adviser or related persons to absorb an equivalent percentage of any cumulative losses (other than as specified in the relevant provisions outlined in the applicable Governing Documents), creates an incentive for such Adviser or related persons to make decisions and/or investments on behalf of a client that are riskier or more speculative than those that would be made in the absence of a Performance Charge.

Another example of such conflicting incentives relates to the authority of the Adviser and its related persons to value each client's portfolio and to make determinations about a client's Management Fee and/or Performance Charge. Because such valuations and such determinations affect the amount of the Management Fee and/or Performance Charge payable or allocable by a client to the Adviser and its related persons, the Adviser and its related persons have an incentive to overvalue a client's Investments.

Further, the Adviser and its related persons have incentives to secure a large capital base in order to increase the value of the Management Fee and to increase the potential value of any Performance Charge, which could make it difficult to generate returns for a client as attractive as those that could be generated if the client had a smaller capital base.

### **Conflicts Arising from Other Activities**

In addition to conflicts of interest that arise with respect to the management and operation of any particular client, conflicts of interest also arise from Other Activities. The Adviser and its related persons currently engage in a range of Other Activities, and there are no limits on the nature or the extent of Other Activities in which they may engage in the future. Such Other Activities in many cases produce or will produce greater economic or other benefits for the Adviser and/or its related persons than certain clients produce for such parties, and thus create or will create incentives for the Adviser and its related persons to favor Other Activities over the applicable clients in various ways.

Examples of Other Activities that are currently pursued by the Adviser and/or its related persons (including Significant Management Capital Entities) include without limitation (a) providing investment advice and/or operational or other services to various clients (including Significant Management Capital Entities and/or other DESCO Favorable Entities) or other persons generally in exchange for Management Fees or other asset-based fees; (b) serving as general partner or manager of, or holding a limited partner, shareholder, member, or other ownership interest in, other investment vehicles (including Significant Management Capital Entities and/or other DESCO Favorable Entities) or businesses generally in exchange for Performance Charges or other charges; (c) engaging in other investment, trading, lending, or financial businesses and activities unrelated to its clients; and (d) engaging in technology-related or other businesses and activities.

Other Activities generally will benefit persons other than a particular client or its underlying investors. Such persons may include without limitation other clients and their investors, the Adviser itself or its related persons (such as when the Adviser or a related person pursues an investment opportunity for its own benefit and not for the benefit of a client), and/or the person performing the activity (such as when employees of the Adviser conduct trading for their own accounts). In addition, the Adviser or a related person is expected to participate in certain investments alongside a client even if such client possesses sufficient desire and capital to make such investments entirely on its own. For example, certain investment opportunities are expected to be capacity constrained (whether for business, regulatory, or other reasons). To the extent that such opportunities are pursued by more than one of the Adviser's clients, such opportunities are expected to be allocated among such clients (certain of which may include Significant Management Capital Entities and/or other DESCO Favorable Entities) by the Adviser and/or its related persons. No client of the Adviser, and no investor in any such client, shall have any right to receive notice of, participate in, or otherwise receive the benefit of any Other Activity.

In particular, the Adviser and certain related persons currently serve (or may serve in the future) as the investment adviser and/or fund manager of one or more clients of the Adviser or such related persons (including DESCO Favorable Entities) that pursue investment strategies that are substantially the same as, or similar to, all or certain elements of the investment strategy pursued by one or more other clients of the Adviser or such related persons. Certain of such clients (including DESCO Favorable Entities) are

expected to be given preferential access relative to other such clients to make certain investments. As a result, a client may be unable to obtain its desired (or any) exposure to such investments and, in certain cases, such clients (including DESCO Favorable Entities) are expected to participate in certain investments alongside a client, even if the client possesses sufficient desire and capital to make such investments entirely on its own. Further, conflicts are expected to arise in connection with any “co-investments” made by a client with such clients (including DESCO Favorable Entities), including because the interests of clients are expected to diverge from time to time. In addition, a client may seek to purchase investments from and/or sell investments to one or more clients of the Adviser or such related persons (including DESCO Favorable Entities) from time to time. Certain such clients (including DESCO Favorable Entities) will also each require substantial resources and attention from the Adviser and/or its related persons.

As outlined in each Fund’s Governing Documents, the Adviser and/or its applicable related persons are authorized to determine the financial institutions and/or counterparties, if any, to be used by such client. Such financial institutions and counterparties (or their affiliates or other related persons) are expected to have other relationships with the Adviser and/or one or more of its related persons. Examples of such relationships may include without limitation (a) investments by such financial institutions or counterparties or their clients in certain Funds and/or other affiliated entities; (b) investments by the Adviser’s related persons in such financial institutions, counterparties, or their affiliates; (c) placement agent, capital introduction, investment banking, underwriting, investment, consulting, accounting, auditing, legal, tax, administrative, or other service or advisory relationships; (d) transactions between such financial institutions, counterparties, or their affiliates and certain clients and/or related persons of the Adviser, including transactions involving the purchase or sale of securities or other assets; (e) the provision of financing or insurance; and (f) the provision of brokerage, custody, and/or other financial services. Certain of these relationships are expected to be significant (possibly more significant than any relationships between such financial institutions, counterparties, or their affiliates and a given client), and such relationships create incentives to use such financial institutions and/or counterparties in connection with a client, to agree to less competitive fee and other terms with such financial institutions and counterparties, or to take or refrain from taking one or more actions in relation to such financial institutions or counterparties in a manner that would privilege the interest of related persons over the interests of the applicable client.

Another example of an Other Activity pursued by a related person is Arcesium, which is a joint venture between a subsidiary of DESCO LP and certain third-party minority investors. These third-party investors are also affiliated with certain investors in certain Funds that are clients of the Adviser and/or its related persons and have other relationships with related parties of the type described in the preceding paragraph. As co-owners of Arcesium, such subsidiary of DESCO LP and such third-party investors will share in income attributable to fees and/or other consideration paid to Arcesium. This creates an incentive to retain Arcesium to provide post-trade technology and services, even if such technology and/or services are of lower quality or offered on less competitive terms than a third-party alternative. Further, fees and/or other consideration paid to Arcesium by other clients are expected to be greater (whether on an absolute or relative basis) than fees and/or other consideration paid by applicable clients of the Adviser, which creates an incentive for Arcesium to devote greater time and resources to such other clients than to the applicable clients of the Adviser.

The interests of the Adviser and its related persons engaging in Other Activities diverge from the interests of the Adviser's clients and/or such clients' investors. For example, as noted in Item 6, the Adviser and/or its related persons (a) hold investments in DESCO Favorable Entities that are larger, whether in percentage or absolute dollar terms, than any investments they hold in other clients and/or (b) provide services to DESCO Favorable Entities that generate higher compensation (*e.g.*, in the form of Management Fees, Performance Charges, or other amounts that are greater, whether in percentage or absolute dollar terms), than the corresponding amounts paid by other clients. As a result, the Adviser and/or its related persons have incentives to deploy more profitable investment strategies (including investment strategies with higher returns and/or Sharpe ratios) on behalf of, or to allocate more profitable investment opportunities to, such DESCO Favorable Entities instead of other clients, and in fact have done so on behalf of certain DESCO Favorable Entities (including Significant Management Capital Entities) and expect to continue doing so in the future. Deployment or allocation of such investment strategies or opportunities to a DESCO Favorable Entity decreases the number and quality of investment strategies and opportunities available to such other clients. Further, the Adviser and its related persons have incentives to increase the capital each invests in Significant Management Capital Entities, even if such increase would exacerbate the conflicts of interest described in this paragraph. More generally, the divergent interests of DESCO Favorable Entities, on the one hand, and other clients and/or their underlying investors, on the other hand, create incentives for the Adviser and certain of its related persons to devote more time and resources to such DESCO Favorable Entities rather than to other clients.

Currently, the Adviser and its related persons devote only a portion of their working time and effort to the business and affairs of any particular client of the Adviser, and it is expected that they will devote a substantial (and probably a greater) amount of their working time and effort to Other Activities (including the business and affairs of DESCO Favorable Entities).

Moreover, any information learned, or expertise developed, by the Adviser or a related person that performs work on behalf of a client is expected also to be used on behalf of one or more Other Activities, including in ways that decrease the utility of such information or expertise to such client (as when, for example, such information or expertise is used in connection with Other Activities that compete with such client, as outlined in the next paragraph). In addition, Other Activities expose the Adviser and/or its related persons to risks independent of those associated with any particular client, and such risks could materially adversely affect the Adviser and/or such related persons and their ability to perform work that benefits the Adviser's clients.

In addition, Other Activities (including Other Activities pursued by DESCO Favorable Entities) may, and in certain cases currently do, compete with one or more clients for (a) the purchase, sale, trading, structuring, restructuring, and otherwise acquiring or disposing of Investments and investment opportunities; (b) the deployment of new investment strategies; and/or (c) the use of investment strategies or tools deployed or used on behalf of more than one client.

Certain Other Activities also make use of certain intellectual property of DESCO LP or certain of its related persons that is also used for clients of the Adviser, and it is expected that such shared use will continue in the future. No assurances can be given that such shared use would not materially adversely affect the Adviser's clients. Further, DESCO LP has exclusive ownership of all intellectual property that the Adviser deploys in connection with its business. Accordingly, DESCO LP makes all determinations

with respect to (a) which intellectual property (*e.g.*, which models, forecasts, trade ideas, investment strategies, and Quantitative Tools) will be made available to DESIM as well as (b) the extent to which such intellectual property may be used by DESIM. For example, DESCO LP is expected to permit the Adviser to deploy models, forecasts, trade ideas, investment strategies, and Quantitative Tools that are capacity constrained, but to do so subject to one or more restrictions and/or only to a limited extent. The Adviser, in turn, makes all determinations with respect to whether and to what extent to deploy any such intellectual property in connection with the activities of its clients (including clients that pursue investment strategies that are substantially the same or similar). In making any of the foregoing determinations, both DESCO LP and the Adviser have incentives to deploy more profitable intellectual property in connection with the activities of DESCO Favorable Entities, and have in fact done so on behalf of certain DESCO Favorable Entities (including Significant Management Capital Entities) and expect to continue to do so in the future. Any such deployment is expected to decrease the number and quality of investment strategies and opportunities available to a given client. Moreover, even if profitable intellectual property is deployed initially in connection with the activities of a client, it is expected that DESCO LP and/or the Adviser will determine from time to time to deploy such intellectual property in connection with the activities of one or more DESCO Favorable Entities (including Significant Management Capital Entities) instead, thereby depriving other clients of one or more potentially profitable investment strategies or opportunities. DESCO LP has no portfolio management, investment advisory, or fiduciary responsibilities with respect to any of the Adviser's clients, nor does DESCO LP have any obligation to take into account the interests of any such client (or the underlying investors in a Fund) in connection with any of the determinations outlined in this paragraph, and such clients and underlying investors will have no recourse against DESCO LP with respect to any such determinations.

Other Activities create additional incentives for the Advisers and/or its related persons to take actions with respect to a client that they might not otherwise take if they were to consider solely the interests of the client. For example, subject to applicable law and the applicable Governing Document, the Adviser is permitted to take into account (and in the past the Adviser and/or its related persons have taken into account) one or more non-financial considerations (such as environmental, social, political, ethical, corporate governance, and other considerations) in (a) the formulation and execution of investment decisions, (b) the selection of counterparties and service providers to a client, and/or (c) other aspects of the manner in which it conducts its business, whether in relation to a client or otherwise. If the Adviser concludes that certain actual or potential Investments and/or activities of a client implicate such non-financial considerations (*e.g.*, by resulting in adverse publicity or regulatory scrutiny and/or by undermining the ability of the Adviser and/or its related persons to attract and retain key employees, retain or raise additional capital from investors, and/or maintain relationships with commercial counterparties), then the Adviser and its related persons are permitted to cause a client to make or dispose of Investments, to forgo investment opportunities, to enter into or terminate counterparty or service provider relationships, or to take other actions in connection with the conduct of its business, in each case in a manner that it would not have done had it taken into account only financial, economic, operational, and/or legal considerations applicable to its clients.



**Deployment and Modification of Investment Strategies and Tools; Exclusive Access; Shared Strategies and Tools; Preferential Access**

DESCO LP, the Adviser, and/or certain of their related persons have developed, and expect to continue to develop, various investment strategies. Such investment strategies may be distinguished by, among other things, asset class, instrument type, industry sector, geography, data inputs, time horizon, and/or investment approach. Each investment strategy may in turn comprise multiple elements, each of which may reflect a distinct investment thesis that attempts to identify trading opportunities based on various quantitative and/or qualitative factors. The risks described in this brochure with respect to investment strategies as a whole generally apply to individual elements of such investment strategies as well. The trading and other investment opportunities identified by each investment strategy are evaluated by the Adviser or its applicable related person on behalf of each client that participates in such investment strategy. Moreover, DESCO LP, the Adviser, and/or certain of their related persons have developed, and expect to continue to develop, portfolio optimization tools, price forecasting methods, risk management approaches, low latency trading approaches, transaction cost minimization techniques, and/or other tools (each, a “Portfolio Management Tool”) to help execute trades and manage portfolios on behalf of relevant clients. As outlined in this Item 10, the Adviser and its related persons face conflicts in deciding how to allocate resources and opportunities among clients (including DESCO Favorable Entities).

**Deployment and Modification of Investment Strategies and Tools; Exclusive Access**

With respect to any particular client, the Adviser and its related persons may deploy one or more available investment strategies or Portfolio Management Tools (a) on behalf of solely such particular client, (b) on behalf of such particular client as well as other clients (including DESCO Favorable Entities) or related persons, or (c) on behalf of other clients (including DESCO Favorable Entities) or related persons but not such particular client. The Adviser and its related persons will determine which investment strategies and Portfolio Management Tools will be deployed on behalf of each client, including DESCO Favorable Entities (for example, whether to deploy such items on behalf of a particular client at all and whether other clients will have preferential access to a Shared Strategy (as defined below) or Shared Tool (as defined below) relative to such client). Further, the Adviser and its related persons are authorized (w) to deploy a new investment strategy or Portfolio Management Tool, (x) to cease to deploy any investment strategy or Portfolio Management Tool, (y) to modify any investment strategy or Portfolio Management Tool, and/or (z) to increase or decrease (in either relative or absolute terms) the capital or risk allocated to any investment strategy or Portfolio Management Tool; in each case with respect to any client, including a DESCO Favorable Entity. Such decisions will be made without notice to, or the consent of, any client or underlying investor in a Fund. Furthermore, in certain cases, such decisions likely would have a negative (and possibly materially adverse) effect on the performance of any particular client and a positive effect on such other clients. In addition, in connection with any such decisions with respect to an investment strategy, a client may directly or indirectly engage in transactions with one or more such other clients.

For the avoidance of doubt, neither the Adviser nor its related persons have any obligation to deploy any particular investment strategy, Portfolio Management Tool, or other opportunity on behalf of any particular client, even if such deployment would be consistent with one or more of such client’s investment objectives and even if such strategy or tool is allocated to one or more other clients (including one or more DESCO Favorable Entities).

In fact, the Adviser and its related persons currently do not, and expect that in the future they will not, deploy on behalf of certain clients certain investment strategies, Portfolio Management Tools, and other opportunities deployed on behalf of various other clients of the Adviser or DESCO LP. For example, one or more Significant Management Capital Entities have been given exclusive access to (a) certain investment strategies with short time horizons that are expected to experience higher returns and higher Sharpe ratios (typically with higher operating costs and/or higher turnover) compared to longer-duration strategies, and (b) certain Portfolio Management Tools focused on low latency trading capabilities. As a result, it is expected that if such a Significant Management Capital Entity trades in the same or a similar instrument as a client that does not have access to such shorter-duration strategies, such Significant Management Capital Entity will from time to time buy or sell such instrument at a more favorable time than such other client buys or sells such instrument, which is likely to have a (possibly material) adverse effect on prices paid or received by the other client for such instrument. Therefore, it is possible that such other client would experience materially better returns were such investment strategies, Portfolio Management Tools, and other opportunities available to be deployed by such other client. Similarly, the Adviser and/or its related persons invest in one or more wholly owned “seeding vehicles” in order to develop or maintain one or more investment strategies. Certain of these investment strategies or elements of such strategies may be similar to one or more elements of the investment strategy pursued by clients and/or may otherwise be appropriate for one or more clients. Nevertheless, it should not be expected that such investment strategies will be deployed on behalf of any particular client, and the Adviser and its related persons have incentives to deploy such investment strategies on their own behalf and/or on behalf of one or more DESCO Favorable Entities instead. To the extent that any such investment strategies or elements thereof nevertheless are deployed on behalf of a particular client, such strategies or elements thereof may also be deployed by such seeding vehicles and/or other clients, in which case such entities would compete for related investment opportunities.

### **Shared Strategies and Tools; Preferential Access**

For purposes of this brochure, any investment strategy or strategy element that is deployed on behalf of more than one of the clients of the Adviser or its related persons is referred to as a “Shared Strategy,” and each such client is referred to as a “Sharing Investor.” In the case of certain Shared Strategies, certain Sharing Investors (including DESCO Favorable Entities) may be given preferential access, relative to other Sharing Investors, to such Shared Strategies (and resulting Investments). For example, if (a) preferential access has been granted to one or more Sharing Investors with respect to a Shared Strategy and (b) the Adviser or applicable related person determines there is insufficient capacity for all such Sharing Investors to participate in a particular trading opportunity to the full extent of each participant’s desired exposure, then such opportunity would be offered to the relevant Sharing Investors in a specific order of priority, such that the client with the highest priority would have the ability to participate in such opportunity up to its desired exposure, while the client with the next highest priority would have the ability to participate in such trading opportunity only to the extent there was remaining capacity in such opportunity. In circumstances in which Sharing Investors (which may include one or more DESCO Favorable Entities) are given preferential access, relative to another Sharing Investor, to a Shared Strategy, then such other Sharing Investor may be unable to obtain its desired (or any) exposure to such opportunity. Further, any such preferential access may require such other Sharing Investor to

reduce or eliminate its exposure to such Shared Strategy, including by selling its holdings of Investments related to such Shared Strategy.

The identity, number, and relative priority of Sharing Investors that participate in a Shared Strategy are expected to vary (possibly materially) over time. The amount (whether relative or absolute) of each Sharing Investor's capital invested using a particular Shared Strategy is expected to differ from the amount of capital invested by one or more Sharing Investors using such Shared Strategy, and it is also expected that one or more Sharing Investors (potentially including one or more DESCO Favorable Entities) will take a different directional position relative to another Sharing Investor in the same instrument at various points in time due to changes in a given trading opportunity, differences in each participant's desired exposure or existing portfolio, differences in the investment strategies deployed on behalf of such Sharing Investors, and/or other determinations made by the Adviser or its applicable related persons. Thus, the returns experienced by one Sharing Investor in connection with a Shared Strategy are expected to differ (possibly materially) from those experienced by any other Sharing Investor. Further, the deployment of any Shared Strategy on behalf of multiple Sharing Investors is expected to cause any such Sharing Investor to acquire and/or liquidate certain Investments at less favorable prices, and is expected to reduce the amount of capital such Sharing Investor is able to invest profitably, in each case relative to what would be the case if such Sharing Investor did not participate in such Shared Strategy.

In addition, to the extent that the deployment of a Shared Strategy on behalf of Sharing Investors increases the effective capital base deployed in connection with, or the (actual or effective) average trade size associated with, such Shared Strategy, such activities can be expected to result in less favorable returns for a client than would be the case if such Shared Strategy were not deployed on behalf of such Sharing Investors or others.

Whether or not the Adviser deploys on behalf of a client an investment strategy deployed on behalf of another client, the Adviser is expected to use some or all Portfolio Management Tools on behalf of more than one client (any shared Portfolio Management Tool, a "Shared Tool"). The use of such Shared Tools exposes clients to substantially the same risks as the use of Shared Strategies, including the risks outlined above.

Decisions with respect to the investment strategy (including Shared Strategies) and Portfolio Management Tools (including Shared Tools) deployed on behalf of a client are subject to various determinations by the Adviser and/or its related persons. Such decisions and determinations are expected to be affected by, among other things, actual or perceived regulatory requirements in the United States and other jurisdictions as well as the Adviser's or a related person's internal policies designed to comply with such requirements. There can be no assurance that any such decision or determination will be regarded as fair and equitable by a client or its underlying investors, and any such decision or determination may have a material adverse effect on a client.

#### **Shared Positions; Conflicting Positions; Transactions Involving Related Persons**

The Adviser and its related persons may give advice and take action with respect to any client, including a Significant Management Capital Entity and/or other DESCO Favorable Entity, or with respect to such party's own investments, that may differ from the advice given, or may involve a different timing or nature

of action taken, with respect to any one or all other clients that the Adviser or its related persons advise, and thus effect transactions for such clients at prices or rates that may be more or less favorable than for other clients. In addition, the Adviser, its related persons, and/or one or more clients (including Significant Management Capital Entities and/or other DESCO Favorable Entities and whether in connection with a Shared Strategy, Shared Tool, or otherwise) are expected to hold the same (or the opposite) position in a given security, commodity, or other financial instrument as that held by a particular client at the same time, and at any given time one or more such parties are expected to hold such common (or opposing) investments or one or more closely related investments that have similar (or opposite) economic exposures as those held by a particular client. Any such positions or investments create conflicts for such persons and may limit the ability of the Adviser to add to a position held by a particular client, to dispose of such a position, or to obtain a favorable price in the course of such addition or disposition. For the avoidance of doubt, references to related persons in this section include the Adviser and DESCO Favorable Entities.

See Item 12 for a discussion of additional considerations applicable when the Adviser engages in trading activities on behalf of multiple clients.

It is expected that from time to time one or more clients or related persons (potentially including the Adviser and/or one or more DESCO Favorable Entities) will hold investments in companies in which a particular client is also invested, but at different priority levels of such companies' capital structures than the Investments held by such client. By way of example, a client may hold the common stock of a company at the same time that a related person holds such company's senior secured debt, or a client may hold junior debt or preferred equity of such company while such related persons hold more senior debt. If such company were to become involved in Reorganization Proceedings, such related person likely would have (a) interests in such proceedings that conflict with those of the client and (b) rights in such proceedings that, if exercised, likely would materially impair the investment held by the client. Similar conflicts are also expected to arise in contexts other than Reorganization Proceedings, including in connection with corporate restructurings, additional debt issuances, and/or certain matters requiring consent of a company's shareholders and/or debt holders. Further, the Adviser or one or more related persons may have access to non-public information in connection with any such investments, which could restrict a client's ability to acquire or dispose of any securities to which such information relates.

In addition, the Adviser, its related persons, and/or one or more clients (including Significant Management Capital Entities and/or DESCO Favorable Entities) have taken actions in the past that have conflicted with actions taken by, or that involved a different timing or nature of action taken than with respect to, one or more other clients, and it is expected that such parties on occasion will take similar actions with respect to one or more clients. For example, it is expected that from time to time one client would (knowingly or unknowingly) buy or sell certain securities or instruments while another client is undertaking a different (including potentially opposite) strategy with respect to those (or related) securities or instruments. By way of another example, it is likely that from time to time a client will hold a long position in an issuer at the same time as a different client (potentially including a DESCO Favorable Entity) holds a short position in such issuer, invests in a competitor of such issuer, or takes other actions that may adversely affect such issuer (*e.g.*, making a litigation finance investment in a claim filed against such issuer).

To the extent permitted by applicable law and the applicable Governing Documents, the Adviser, its related persons (including DESCO Favorable Entities), and/or their clients may trade with each other from time to time upon the advice of the Adviser and/or its related persons. The Adviser itself generally does not trade securities on a principal basis with clients. However, certain clients and related persons of the Adviser, including Significant Management Capital Entities, are deemed principals (and in the future other clients may be deemed principals) based on SEC staff guidance, due to the investment in each such client or related person by the Adviser and controlling persons exceeding 25% of that client's or related person's assets. The Adviser and/or its related persons may have interests in such transactions that are adverse to a particular client.

To the extent permitted by applicable law and the applicable Governing Documents, the Adviser and/or its related persons may effect "cross transactions" between the Adviser's and/or its related persons' client accounts in which one client will purchase securities held by another client. Although the Adviser and/or such related persons would endeavor to undertake such transactions only at fair value, such value may be difficult to determine and may depend in whole or in part on subjective judgments by the Adviser or such related persons (for example, when reliable, independent price quotations are not readily available for a particular Investment and/or when such Investment is illiquid). Accordingly, there can be no assurance that such transactions will not result in a conferral of benefits upon a client at the expense of another client. Neither the Adviser nor any related person receives any commission or commission equivalent in connection with any such transaction.

To the fullest extent permitted by law, the Adviser and its related persons (including DESCO Favorable Entities) are not required to seek to eliminate the possibility or effects of any of the actions or conflicts described in this section. Accordingly, such actions or conflicts may result in an economic benefit to one client and/or an economic harm to another client.

### **Errors; Exculpation and Indemnification of the Adviser and its Related Persons**

Trading, programming, operational, and other errors have occurred, and are expected to occur in the future, in connection with the Adviser's operations and investment activities on behalf of various clients. Such errors may be caused, in whole or in part, by the Adviser or its related persons; by service providers such as Arcesium or any third-party administrator to a client; by trading or other counterparties; and/or by other persons; and in each case may relate to any aspect of the Adviser's and/or a client's activities, including in the areas of research, analysis, coding and other programming, computation, trade execution, trade settlement and allocation, the exercise of shareholder rights, risk management, counterparty management, financial operations, accounting, valuation, tax, reporting, compliance, and information technology. Any such errors could result in material losses, regulatory scrutiny, reputational damage, and/or other material adverse effects on the Adviser, a client, or a client's Investments.

Further, to the fullest extent permitted by law, and as set forth in the applicable Governing Documents, the Adviser and its related persons (a) shall be exculpated by each client and each client's underlying investors, and shall be indemnified and held harmless by each client, for certain conduct (including for any of the errors described in the preceding paragraph) and for any related losses, subject only to any exceptions set forth in the applicable Governing Documents, and (b) shall have no liability to a client or a client's underlying investors for (i) any lost or forgone trading, investment, lending, or other profits,

earnings, revenues, income, proceeds, returns, or gains (whether related to a client, a client's Investments, or otherwise) or (ii) any consequential, exemplary, punitive, incidental, indirect, or special damages. Accordingly, clients and their underlying investors should note that the Adviser and its related persons generally will not be liable for certain types of conduct, including for any of the errors described in the preceding paragraph, and any losses related to such errors generally will be borne by the applicable client and, indirectly, by the client's underlying investors. As a result, the Adviser and its related persons have less of an incentive to avoid such errors than they otherwise would have, and the Adviser and its related persons may in turn exercise less diligence in the conduct of their affairs (including by failing to monitor for and/or remediate errors) than they would have exercised if the Adviser and its related parties were expected to be liable for any such errors.

The Adviser and its related persons will make certain determinations with respect to the errors described in this section, including (x) the occurrence, nature, and extent of any such error, (y) the losses, if any, caused by such error, and (z) whether any applicable persons should be indemnified for any such losses. The Adviser and its related persons will have conflicts of interest in making such determinations, which are expected to be made without notice to or the consent of any applicable client or any such client's underlying investors.

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

The Adviser and its affiliated investment advisers have adopted a code of ethics (the "Code") that establishes the standard of business conduct that must be followed by, among others, all partners, directors, officers, and employees of the Adviser and these investment advisers (collectively, "Supervised Persons"). The Code incorporates the following general principles, which all Supervised Persons are expected to uphold: act in the best interests of clients; conduct activities and personal securities transactions in a manner consistent with the Code, which seeks to address certain conflicts of interest in this regard; avoid taking any inappropriate advantage of one's position at the Adviser; maintain confidentiality of information concerning the Adviser's securities recommendations and client securities holdings and transactions; and provide accurate disclosure in reports required by auditors, regulators, or government bodies.

The Adviser believes that these general principles not only help the Adviser fulfill its obligations undertaken as an investment adviser, but also protect the Adviser's reputation and instill in employees the Adviser's commitment to honesty, integrity, and professionalism.

The Code also provides guidelines for Supervised Persons regarding adherence to securities laws generally, transactions in personal accounts involving public and private securities and commodities, activities outside of the investment adviser's business, giving and receiving business-related gifts, and the maintenance and memorialization of certain family and/or close personal relationships. For example, the Code generally requires that all Supervised Persons obtain approval prior to effecting a securities or commodities transaction in a personal or related account over which the employee exercises control. In addition, the Code encourages all Supervised Persons to report Code violations and outlines potential sanctions for such violations. The Adviser's Chief Compliance Officer is responsible for the Code's

administration, including without limitation the monitoring and review of personal securities and commodities transactions of Supervised Persons, and is available for any questions Supervised Persons have regarding the Code. The Adviser will provide a copy of the Code to any client or prospective client upon request and may elect to provide a copy of the Code to investors in the Funds.

Please see Item 10 for additional information regarding certain conflicts of interest arising from circumstances in which the Adviser recommends to clients, or buys or sells for client accounts, securities in which the Adviser or its related persons is invested (or is buying or selling) or otherwise has a financial interest.

## **Item 12: Brokerage Practices**

### **Selection of Client Counterparties**

Generally, the Adviser is authorized by each client to determine the financial institution or counterparty (if any) to be used for each transaction executed on behalf of such client within the objectives and policies (if any) outlined in the applicable Governing Document or another written agreement with a particular client. In selecting any such financial institution or counterparty, the Adviser seeks to obtain the best execution of transactions for its clients under the circumstances (consistent with what it believes to be the best overall interests of the client) but need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost or otherwise to minimize the transaction costs incurred directly or indirectly in such transaction. In particular, the Adviser is expected to consider the overall quality of the execution services offered, which may include without limitation consideration of factors such as commission costs, transaction costs, inventory and liquidity (including the ability to transact at a given order size), the trading characteristics of the applicable securities, creditworthiness and financial stability, clearance and settlement capability, customer service, ability to maintain confidentiality, the provision of research and other services (including access to analysts and subject matter experts), potential or perceived conflicts of interest, speed of execution, and/or the ease or difficulty of executing orders (whether due to operational or other considerations), as well as any other financial or non-financial factors, including those outlined in “Non-Financial Considerations” in Item 8 above, that it determines to be appropriate in connection with making any such selections. Accordingly, transactions will not always be executed at the best price or the lowest available commission. In addition, the Adviser is not required to negotiate “execution only” commission rates; thus, the clients may be deemed to be paying for other services provided by the financial institution that are included in the commission rate, and the Adviser may benefit to the extent it does not itself produce or pay for such services. See “Brokers; Custodians; Other Counterparties” in Item 8 for a discussion of the risks associated with financial institutions and counterparties.

Subject to its duties under the express terms of any applicable agreement and under applicable law, the Adviser may engage and/or direct transactions or commissions to certain financial institutions and/or counterparties (a) that are directly or indirectly affiliated with the Adviser, (b) that have made (or whose affiliates have made or directed) investments in Funds advised by the Adviser or a related person and/or in other affiliates of the Adviser (including Arcesium), (c) that have certain other relationships with one or more related parties, as outlined in “Conflicts Arising from Other Activities” in Item 10), or (d) that may be willing to furnish other services for the benefit of the Adviser or a related person. It is expected that

other services contemplated by clause (d) of the preceding sentence (if any) would include only brokerage and research services that are deemed to fall within the safe harbor provided by Section 28(e) of the Exchange Act or any amendment or successor to such provision. Such services may include the provision of information on economic trends or conditions, political developments, industries, groups of securities, individual countries, and individual companies, as well as post-trade brokerage services or communication services related to the execution, clearing, and settlement of transactions.

Research or other services obtained in this manner may be used in servicing any or all clients of the Adviser and may be used in connection with advisory accounts other than those that pay commissions and commission equivalents to the financial institution relating to the research or other service arrangements. The receipt of such services from particular financial institutions or counterparties may cause the Adviser to have an incentive to select or recommend such financial institutions or counterparties rather than financial institutions or counterparties from which the Adviser's clients would receive the most favorable execution. The appropriateness of brokerage commissions is evaluated by the Adviser on an ongoing basis.

### **Shared Positions**

When trading on behalf of multiple clients, the Adviser and its related persons endeavor to allocate investment opportunities among such clients in a fair and equitable manner. The allocation of trades may vary based on, among other things, differences in investment objectives, capital constraints, and/or leverage preferences among clients, and any anticipated increase or decrease of any particular client's assets under management. The policies and procedures of the Adviser and its related persons for allocating trades among multiple clients were developed by the firm's relevant senior management and compliance personnel, and the Adviser and its related persons do not alter such allocation policies without the approval of such personnel.

In particular, when portfolio decisions regarding the same instrument are made contemporaneously for multiple clients (including Significant Management Capital Entities and/or other DESCO Favorable Entities), the Adviser may, if consistent with market conditions, client characteristics, and applicable law, bunch or aggregate client orders (including orders for clients in which the Adviser, its related persons, and/or its personnel have beneficial interests) for execution. Such bunching or aggregating of orders might facilitate execution and reduce brokerage and other costs. In such cases, the Adviser (acting alone or together with a related person) is expected to allocate a portion of the resulting position to one client and the remainder to one or more other clients (potentially including Significant Management Capital Entities and/or other DESCO Favorable Entities), with the actual allocation being determined by the Adviser and/or such related person. In other cases, the Adviser or a related person is expected to execute separate trades on behalf of each applicable entity, the relative size and timing of which will also be determined by the Adviser or such related person. The Adviser reserves the right to choose in each case whether to bunch or aggregate client orders or to employ a separate-trade approach. In particular, the Adviser does not expect to bunch or aggregate orders if (a) portfolio management decisions are not made contemporaneously, (b) the Adviser determines that it would be inconsistent with its investment management duties or the interests of its clients to do so, or (c) bunching or aggregating is not practical operationally or otherwise. Because of prevailing trading activity, it is frequently not possible to receive



the same price or execution on the entire volume of positions purchased or sold in such bunched or aggregated orders.

Positions purchased or sold in a bunched or aggregated transaction are allocated to the participating clients using a method determined by the Adviser in its sole discretion (which the Adviser expects generally to be *pro rata* by assets under management, *pro rata* by order size, or, as applicable, another method consistent with the Shared Strategies preferences outlined in “Deployment and Modification of Investment Strategies and Tools; Exclusive Access; Shared Strategies and Tools; Preferential Access” in Item 10). The Adviser may increase or decrease the transaction amount allocated to each client to avoid holding odd lots or small numbers of positions for particular clients. If the Adviser is unable to or does not fully execute a bunched or aggregated transaction, the Adviser determines that it would be impractical to allocate a small number of positions among all of the accounts initially intended to participate in the transaction, or the Adviser determines to employ an allocation method not described above, the Adviser may allocate such positions in a manner determined in good faith to be an appropriate allocation. In addition, the Adviser may charge or credit clients participating in the transaction (a) with the prices applicable to any filled orders allocated to such related persons, (b) with the average price of the various prices received for that order, or (c) with a price determined to be an appropriate price. Although it is anticipated that the bunching or aggregating of orders will benefit each client overall, such approach may disadvantage certain clients, including without limitation by resulting in shared allocations of filled orders or worse execution prices for client orders. Alternatively, not bunching or aggregating orders may disadvantage certain clients, including without limitation by resulting in higher costs or worse execution prices for such orders.

In addition, in cases in which orders are bunched or aggregated, the Adviser and/or one or more related persons may determine that a single entity will be the party to the contract that covers all of the trades of the Adviser’s and/or its related persons’ clients. Where one of the Adviser’s clients is the party to such a contract, it will bear the risk that one of these other clients would default on its portion of any trade, and that the client that is the party to the contract would be liable for the defaulted obligation. Where one of the Adviser’s clients is not the party to such a contract and is allocated a portion of a trade, it bears the risk that the client of the Adviser that is the party to such contract would default under the contract, which may result in the cancellation of trades made on behalf of the client that is not the party to the contract.

In effecting transactions for a client, related person, and/or any other persons or entities, it will not always be possible or consistent with the investment objective of the client or of such other persons or entities to take or liquidate the same or similar investment positions at the same time or at the same prices. The market impact associated with a liquidation by such other persons or entities may materially adversely affect (a) a client’s ability to liquidate its position; (b) if a client’s position is traded, the price at which such trade occurs; or (c) if a client does not liquidate its position, the mark-to-market value of such position, in each case resulting in the conferral of an economic benefit on such other related person at the expense of the client.

### **Additional Brokerage Practices**

Subject to applicable law and the terms of the applicable Governing Document, the Adviser or its related persons may execute transactions in which it or its related persons act as broker or principal, as

applicable, and may also execute transactions in which the Adviser and/or its related persons (including one or more DESCO Favorable Entities) have an interest, as outlined in Item 10.

The Adviser's related persons may also have independent authority to determine and direct the execution of the Adviser's clients' portfolio transactions, within the objectives and policies (if any) outlined in the applicable Governing Document or another written agreement with a particular client.

Subject to the terms of the applicable Governing Document, the Adviser attempts to correct any identified trade errors unless it determines that doing so would not be in the interest of the applicable client. As with all other financial gains and losses attributable to Investments, any financial gains or losses resulting from trade errors generally are borne by the applicable client and its underlying investors, subject to the terms of the applicable Governing Document.

The Adviser does not currently participate in directed brokerage.

### **Item 13:     Review of Accounts**

For each of the Adviser's investment strategies, a strategy head and/or one or more other supervisors are responsible for reviewing trading data and other reports on a regular basis and overseeing the associated trading activity. Such reviews include without limitation a verification that actual trading activity is consistent with the intended strategy and any investment guidelines and/or restrictions, an analysis of risks associated with such strategy, and a determination that trading is undertaken in compliance with applicable regulations; compliance personnel also review certain aspects of regulatory compliance. Certain of the principal executive officers of the Adviser or its related persons may review investment strategies periodically. In addition, the Adviser uses independent third parties to conduct financial audits of the accounts of the Funds. The frequency of all such reviews is determined as warranted by the purpose of the review and other circumstances.

In addition to providing reports required by applicable law, the Adviser provides reports to clients and/or underlying investors in Funds in accordance with the applicable Governing Document or other written agreements with such recipients. These reports include those that present, among other things, the net asset value or the capital balance of such client's or investor's account and a measure of performance based on the change in valuation of such account or the applicable Fund during the period covered by the report.

In addition, with respect to certain Funds, an independent third-party administrator periodically conducts an independent verification of the Adviser's pricing of the investment positions held directly or indirectly by such Funds. The independent third-party administrator typically provides a letter to investors in such Funds that confirms, among other things, the accuracy of the capital balances and of certain performance information reported by the Adviser or the Adviser's related persons to those investors, the performance of an independent pricing verification, and the percentage (if any) of the relevant Fund's investments for which the independent third party was unable to verify prices.

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

The Adviser and its related persons currently do not directly or indirectly compensate any person (other than supervised persons of the Adviser or its related persons) for client referrals. The Adviser and/or its related persons may enter into capital introduction agreements with certain financial institutions; it is generally expected that the financial institutions would not receive compensation under any such arrangement. Further, the Funds engage internal, and may engage external, placement agents for placement of interests in the Funds.

#### **Item 15: Custody**

Client assets are generally held in custody by unaffiliated qualified custodians; however, the Adviser or its related persons are deemed to have custody of certain assets of the Funds (but not of the Adviser's separately managed account clients). Fund investors do not receive account statements from the custodian; rather, the Funds are subject to an annual audit, and the audited financial statements are distributed to each Fund investor.

#### **Item 16: Investment Discretion**

The Adviser accepts discretionary authority to manage securities accounts on behalf of its clients. The terms and procedures governing assumption of this authority, including any applicable investment objectives or guidelines, are set forth in the applicable Governing Document.

#### **Item 17: Voting Client Securities**

The Advisers Act generally requires investment advisers to vote all proxies within their authority. The Adviser does not vote proxies where it does not have the authority to do so, where it has agreed with the applicable client to limit the conditions under which the Adviser will exercise its proxy voting authority, or where the cost of doing so, in the opinion of the Adviser, would exceed the expected benefit to the applicable client.

The Adviser generally votes most proxies through and in accordance with the recommendations of an independent third-party proxy voting service (the "Voting Service Recommendations"). The Adviser believes that the independent third-party proxy voting service's internal policy regarding conflicts of interest, including the use of information barriers, adequately addresses its potential conflicts of interest. Notwithstanding the foregoing, at the request of a client, the Adviser may determine in its sole discretion to vote as requested by the applicable client.

The Adviser has designated particular employees to review certain proxy matters. When the designated employees believe that the Voting Service Recommendation may be contrary to the best interest of a client, the designated employees may consider an alternative vote, in which case they must obtain the approval of the Chief Compliance Officer and a Managing Director, or their respective designees, before instructing the proxy voting service to vote the applicable proxy. For the avoidance of doubt, the Adviser retains the authority to vote proxies, has not delegated such authority to any other party, and may vote

against any Voting Service Recommendation if it determines such recommendation may be contrary to the client's best interests.

Additionally, the Adviser has established written policies and procedures designed to ensure that proxies are voted in the best interest of the applicable client (the "Proxy Voting Policy"). The Adviser seeks to avoid material conflicts of interest between the Adviser and a client in voting such client's proxies. Where a material conflict of interest between the Adviser and a client is identified in connection with a particular proxy vote, the Adviser will vote in a manner determined to be in the best interests of the applicable client or take some other appropriate action, which may include refraining from voting the applicable proxy. In making any determination outlined in this Item 17 regarding the best interests of a client, the Adviser has discretion to take into account any factors or considerations that it determines to be relevant, including without limitation those outlined in this Brochure or in the applicable Governing Document.

The Adviser will provide a copy of the Proxy Voting Policy to any client or prospective client upon request and may elect to provide a copy to underlying investors in the Funds. Upon written request by any separately managed account client for which the Adviser has authority to vote proxies, the Adviser will provide such client with a tabulation of how such client's proxies were voted by the Adviser.

Unless expressly agreed otherwise with the applicable client, the Adviser generally believes the costs of voting proxies would exceed the expected benefits, and generally does not vote proxies, in the following circumstances: (a) the proxies must be voted in-person; (b) the proxies are in jurisdictions that impose restrictions on the sale of the securities in order to vote (*e.g.*, share-blocking jurisdictions); (c) the relevant securities are on loan pursuant to a securities lending program; (d) the proxies require execution of a power of attorney; (e) the relevant securities must be re-registered to the shareholder's name and not held in "street name"; and (f) the proxies require a certain client status with respect to the relevant resolutions, issuer, or jurisdiction to be voted.

## **Item 18: Financial Information**

The Adviser does not require or solicit prepayment of fees more than six months in advance. The Adviser has not been the subject of a bankruptcy petition at any time during the past ten years and is not aware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments to its clients.