

# **Avala Global LP**

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This “**Brochure**” provides information about the qualifications and business practices of Avala Global LP (hereinafter “**Avala**”, the “**Adviser**”, the “**Investment Manager**”, or the “**Firm**”). If you have any questions about the contents of this Brochure, please contact the Firm at 917-446-2736. Information in this Brochure has not been approved or verified by the U.S. Securities and Exchange Commission (the “**SEC**”) or by any state securities authority.

Registration as an investment adviser does not imply that Avala or any of its principals or employees possess a particular level of skill or training in the investment advisory business or any other business.

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

**Item 2: Material Changes**

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The Adviser is required to identify and discuss any material changes made to its Brochure since the last update to the Brochure. There have been no material changes to the Brochure since the last update was made on December 9, 2022. In the future, any material changes will be stated in this section.

Investors are encouraged to review the Brochure in its entirety.

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#### Item 4: Advisory Business

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Avala Global LP (hereinafter “**Avala**”, the “**Adviser**”, the “**Investment Manager**”, or the “**Firm**”) is a Delaware limited partnership formed in December 2021 with a principal place of business in New York, New York. The Firm is controlled and principally owned by Divya Netti (the “**Principal**”), who acts as Managing Member of its general partner, Avala Global GP LLC, a Delaware limited liability company.

The registration on Form ADV also covers Avala Global LLC (the “**General Partner**”), a Delaware limited liability company. The General Partner is an affiliate of the Investment Manager and serves as General Partner to the Funds, as defined below.

Divya Netti controls the General Partner as its Managing Member.

Avala serves as the investment adviser, with discretionary trading authority, to private, pooled investment vehicles, the securities of which are offered through a confidential private placement memorandum to accredited investors or non-“U.S. Persons” as defined in Regulation S, each as defined under the Securities Act of 1933, as amended, and qualified purchasers, as defined under the Investment Company Act of 1940, as amended. Avala does not tailor its advisory services to the individual needs of any particular investor.

Avala currently advises the following private investment funds:

- Avala Global Onshore LP, a Delaware limited partnership (the “**Onshore Fund**”)
- Avala Global Offshore LP, a Cayman Islands exempted limited partnership (the “**Offshore Fund**”)
- Avala Global Intermediate LP, a Cayman Islands exempted limited partnership (the “**Intermediate Fund**”)
- Avala Global Master LP, a Cayman Islands exempted limited partnership (the “**Master Fund**”)

The Offshore Fund invests all of its assets in the Intermediate Fund. The Intermediate Fund and the Onshore Fund invest all of their assets in the Master Fund. The Onshore Fund, Offshore Fund, Intermediate Fund, and Master Fund, are herein each referred to as a “**Fund**” or “**Client**,” and collectively referred to as the “**Funds**” or the “**Clients**.” The Onshore Fund’s and the Offshore Fund’s “**Limited Partners**” are hereafter collectively referred to as “**Investors**” where appropriate.

The Master Fund is a global equity long-short fund that makes concentrated investments in public and private companies. The Investment Manager focuses on conducting deep fundamental research in order to identify and monetize differentiated ideas. The Master Fund’s mission is to compound capital at high rates over the long term through a concentrated portfolio of best ideas.

The investment decisions and advice with respect to the Funds are subject to each Fund’s investment objectives and guidelines, as set forth in its respective “**Offering Documents**.”

Avala may, in the future, advise other clients and private investment funds, including special purpose vehicles, co-investment funds, and similar investment vehicles.

Avala does not currently participate in any Wrap Fee Programs.

Avala manages, on a discretionary basis, approximately \$1,037,750,548 of client regulatory assets under management as of March 31, 2023. Avala does not manage any assets on a non-discretionary basis.

*This Brochure does not constitute an offer to sell or solicitation of an offer to buy any securities. The securities of the Funds are offered and sold on a private placement basis under exemptions promulgated under the Securities Act of 1933, as amended, and other applicable state, federal or non-U.S. laws. Significant suitability requirements apply to prospective investors in the Funds, including requirements that they be “accredited investors” as defined in Regulation D, “qualified purchasers” as defined in the Investment Company Act of 1940, or non-“U.S. Persons” as defined in Regulation S. Persons reviewing this Brochure should not construe this as an offer to sell or a solicitation of an offer to buy the securities of the Funds described herein. Any such offer or solicitation will be made only by means of a confidential private placement memorandum.*

## Item 5: Fees and Compensation

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The fees applicable to each of the Funds are set forth in detail in the corresponding Offering Documents. A brief summary of such fees is provided below.

### ***Management Fee***

The Master Fund will pay Avala a fee for its services (the “**Management Fee**”) for each month equal to a twelfth of the result of the applicable management fee rate multiplied by the balance of each Investor’s capital account in the Onshore Fund or Offshore Fund as of the beginning of the month (before taking into account the estimated accrued Incentive Allocation, if any). For purposes of calculating the Management Fee, “special investments” are valued at the lower of (i) initial cost, as adjusted for partial realizations (or deemed realizations) and (ii) fair value (which may be cost), as determined by Avala. The Management Fee is calculated and paid in advance within 10 days of the first day of each fiscal month.

The specific rates, calculation methodology and other terms of the Management Fee applicable to each tranche of interests is detailed in the Funds’ Offering Documents.

The Investment Manager, in its sole discretion, may waive or modify the Management Fee for any Investor, including the Principal and any other member, partner, affiliate or employee of the General Partner or the Investment Manager, any member of the immediate family of any such person, and any trust or other entity established for the benefit of any such person. The General Partner is not charged the Management Fee.

### ***Incentive Allocation***

Generally, at the end of each fiscal year, the General Partner is entitled to an incentive allocation (the “**Incentive Allocation**”) from the Onshore Fund and the Intermediate Fund, which is determined separately with respect to each capital account established for an Investor.

The Funds offer several tranches of interests into which Investors may invest, and the rate and manner of calculation of the Incentive Allocation applicable to each Investor is determined by the terms of the tranche of interests in which each such Investor invests. The specific Incentive Allocation amounts charged to Investors will also vary due to a number of factors including, without limitation, restrictions from participating in new issues, timing of capital contributions and withdrawals, and participation in special investments.

Generally, the Incentive Allocation allocated in respect of an Investor’s capital account will be an amount equal to the result of (i) the applicable Incentive Allocation rate multiplied by (ii) the amount of the net capital appreciation allocated to such capital account for such fiscal year, reduced by the Management Fee debited to such capital account for such fiscal year, taking into account any gains or losses from special investments that have been realized or deemed realized, but reduced to the extent of any balance in such capital account’s “loss recovery account.”

The specific rates and calculation methodology for the Incentive Allocation applicable to each tranche of interest is detailed in the Funds’ Offering Documents.

The General Partner, in its sole discretion, may waive or modify the Incentive Allocation for any Investor, including the Principal and any other member, partner, affiliate or employee of the General

Partner or the Investment Manager, any member of the immediate family of any such person, and any trust or other entity established for the benefit of any such person.

### ***Payment of Fees***

Fees and compensation paid or allocated to the Adviser or its affiliates by a Fund will generally be deducted from the assets of such Fund. As discussed above, Management Fees are generally deducted on a monthly basis and the Incentive Allocation is generally deducted on an annual basis.

### ***Prepayment of Fees***

Generally, the Master Fund pays the Management Fee to Avala within the first 10 days of each month for such month. The Funds only permit voluntary withdrawals on applicable quarter-ends; however, if the Funds were to wind up or permit an Investor to withdraw on a date that is not a month-end, a *pro rata* portion of the Management Fee that was paid in advance by the Funds and borne by such Investor would be refunded.

### ***Additional Compensation and Conflicts of Interest***

Neither the Adviser nor any of its supervised persons accepts compensation (e.g., brokerage commissions) for the sale of securities or other investment products.

### ***Additional Fees and Expenses***

In addition to the management fees and incentive compensation items noted above, Investors will bear indirectly the operating expenses charged to the applicable Funds, which include, without limitation: (i) expenses related to the research, due diligence and monitoring of actual and prospective investments of the Master Fund (whether or not consummated) and the consummation and disposition of investments of the Master Fund, including the following: third-party investment sourcing fees; fees and expenses related to obtaining research and market data (including expenses related to obtaining, processing and analyzing “big data” or “alternative data,” any information technology hardware, software or other technology incorporated into the cost of obtaining such research and market data) and expenses related to performing due diligence on current or prospective vendors of such research or market data services; due diligence expenses including consulting and appraisal fees; travel expenses (including transportation, lodging and meals); conference registration fees; brokerage, prime brokerage and futures commission merchant fees, commissions and expenses; expenses relating to short sales; clearing and settlement charges; custodial fees and expenses; bank service fees; interest expenses and fees related to financings or refinancings; costs and expenses related to a Subscription Facility; fees and expenses of proxy research and voting services; and fees and expenses of third-party professionals, including consultants, investment bankers, attorneys and accountants; (ii) organizational and reorganizational expenses; (iii) the Master Fund’s direct or indirect *pro rata* share of any compensation payable in connection with the management of any investment (including any special investment) by an unaffiliated third party or management team, which may include both asset-based fees and performance-based fees (which, for the avoidance of doubt, will not reduce the Management Fee or Incentive Allocation payable to the Investment Manager and the General Partner, respectively, unless such investment is a Blind Pool); and (iv) operational expenses, including the following: fees and expenses relating to information technology hardware, software or other technology (including costs of software licensing, implementation, data management and recovery services and custom development) used to research investments, evaluate and manage risk, facilitate valuations, facilitate accounting functions, facilitate compliance with the rules of any self-regulatory organization or

applicable law (including reporting obligations), facilitate and manage the order execution of financial instruments or otherwise manage the Master Fund or any trading vehicle, such as Bloomberg terminals, portfolio management systems, risk management systems, order management systems and corporate access and research management systems; fees and expenses of third-party risk management products, models and services; third-party administrative fees and expenses (including any “shadow” administrator); expenses of third-party middle and back office support; fees and expenses of third-party professionals, including consultants, valuation service providers, attorneys, accountants, tax advisors and public relations firms; the costs of any litigation or investigation involving activities of the Funds or any trading vehicle; third-party audit and tax preparation expenses; insurance expenses, including premiums for cybersecurity insurance and liability insurance covering the General Partner, the Adviser and the members, partners, managers, officers, employees and agents of any of them, and each member of the Advisory Board; fees and expenses of any anti-money laundering officers of the Funds (as applicable); fees and expenses (including director registration fees) of any trading vehicle’s directors and officers (including any anti-money laundering officers); fees and expenses of the independent members of the Advisory Board; costs of preparing and distributing reports and notices (including, without limitation, all costs incurred to audit such reports, provide access to a database or other internet forum and any other operational, legal, secretarial or postage expenses associated with distribution of the same); costs and expenses related to CRM software; taxes; expenses incurred in connection with negotiating and complying with provisions of any Side Letter Agreement and expenses incurred in connection with any transfers of interests or a Limited Partner’s admission or withdrawal, unless otherwise charged to or borne by the applicable transferee or Limited Partner; fees and expenses related to compliance with the rules of any self-regulatory organization or applicable law in connection with the activities of the Funds or any trading vehicle, including any governmental, regulatory, licensing, filing or registration fees or taxes (including fees and expenses incurred in connection with the preparation and filing of Form PF, Section 13 filings, Section 16 filings and other similar regulatory filings); expenses incurred in connection with the offering and sale of the interests in a Fund, including marketing related travel expenses (including transportation, lodging and meals) and other similar expenses related to the Fund (excluding fees payable to any placement agent), including meetings with investors and prospective investors; expenses incurred in connection with the preparation, amendment, modification, revision or restatement of the offering and governing documents of the applicable Funds; extraordinary expenses, including the following: indemnification expenses; fees and expenses incurred in connection with any tax audit by any tax authority, including any related administrative settlement and judicial review; and fees and expenses incurred in connection with the reorganization, dissolution, winding up or termination of the applicable Funds or any trading vehicle.

Investors should review the Funds’ Offering Documents to fully understand the types of fees and expenses paid for by such Fund. The Funds will also bear their *pro rata* share of any expenses of a vehicle through which it invests, including any trading subsidiary or special purpose vehicle. To the extent that expenses to be borne by the Funds are paid by Avala or its affiliates, the Funds will reimburse such party for such expenses. If any of the above expenses are incurred jointly for the Funds’ accounts and any other Avala client, such expenses generally will be allocated in accordance with Avala’s expense allocation policy. Please see “*Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading*” for additional information on certain conflicts related to the allocation of expenses.

### ***Allocation of Expenses***

The Investment Manager seeks to fairly allocate expenses among the Master Fund and any additional co-investors.



Generally, the Master Fund and co-investors that own an investment will share in expenses related to such investment, including expenses originally charged solely to the Master Fund. However, it is not always possible or reasonable to allocate or re-allocate expenses to a co-investor, depending upon the circumstances surrounding the applicable investment (including the timing of the investment), the financial and other terms governing the relationship of the co-investor to the Master Fund with respect to the investment and the nature of the expense (*e.g.*, (i) research expenses that are not specifically related to an investment (but may benefit one or more such investments), (ii) research expenses that are subscription-based, aggregated together or otherwise paid for as a single bill or lump sum payment, (iii) other similar expenses that are difficult to divide and allocate specific costs or expenses to a single investment, generally will not be allocated to co-investors (and will be borne by the Master Fund) and (iv) research in products or services obtained with soft dollars generated by the Master Fund that are specific to, and benefit one or more such investments, will be paid for with soft dollars and not allocated to co-investors). As a result, there may be occasions where co-investors do not bear a proportionate share of such expenses as compared to expenses borne by investors in the Funds. In addition, expenses (*e.g.*, broken deal expenses) associated with potential co-investment opportunities that are ultimately not consummated, are unlikely to be borne by contemplated co-investors (including Other Accounts), unless a binding commitment has been obtained from such co-investors (including Other Accounts); rather they will generally be borne by the Master Fund.

Certain of the Investment Manager's determinations with respect to whether specific expenses should be borne by the Investment Manager or by the Funds require subjective judgments. The Investment Manager has a conflict of interest when making such judgments because the Investment Manager will bear the costs of any expenses not allocated to the Funds. Similarly, certain of the Investment Manager's determinations with respect to whether specific expenses should be borne by the Fund or a third-party co-investor, require subjective judgments. Co-investors may have different expense terms than the Fund, and the Investment Manager may have a conflict of interest when determining whether the Fund or such co-investors will bear a specific expense. In addition, the allocation of certain expenses may affect the size or performance of, and therefore the fees or allocations earned by the Investment Manager with respect to, certain co-investors or the Fund, and therefore the Investment Manager may have a conflict of interest when determining how to allocate expenses among such co-investors and the Fund. The Investment Manager seeks to allocate expenses in a manner that it deems to be fair and equitable.

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

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Avala and its affiliates are entitled to performance-based compensation from every Client. As a result, Avala and its affiliates do not face certain conflicts of interest that may arise when an investment adviser accepts performance-based compensation from some clients, but not from other clients.

Performance-based allocation arrangements may create an incentive for the Firm to recommend investments which may be riskier or more speculative than those which Avala would recommend under a different arrangement.

## Item 7: Types of Clients

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Avala provides discretionary investment management services to the Funds as described above. Avala may, in the future, provide investment advisory services to other types of Clients. The Funds' respective investment programs and such additional Clients may or may not overlap.

The Funds' Offering Documents set forth the eligibility requirements and applicable minimum subscription amount. The minimum subscription amount may be waived by the Firm for certain Investors in the General Partner's sole discretion. Each Investor in the Onshore Fund generally must be (i) an "accredited investor," as defined in Regulation D under the Securities Act, and (ii) either a "qualified purchaser," as defined in the Company Act, or a "knowledgeable employee," as defined under Rule 3c-5 of the Company Act, and must meet other suitability requirements. Each Investor in the Offshore Fund generally must be either (i) a non-U.S. Person or (i) a Permitted U.S. Person that qualifies as an "accredited investor," as defined in Regulation D under the Securities Act, and (ii) either a "qualified purchaser," as defined in the Company Act, or a "knowledgeable employee," as defined under Rule 3c-5 of the Company Act, and must meet other suitability requirements.

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

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The descriptions set forth in this Brochure of specific advisory services that Avala offers to Clients, and investment strategies pursued and investments made by the Firm on behalf of its Clients, should not be understood to limit the Firm's investment activities in any way. Avala may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that Avala considers appropriate, subject to each Client's investment objectives and guidelines as set forth in the Offering Documents. The investment strategies Avala pursues are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any Client will be achieved or complete losses will not be incurred.

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

The Master Fund is a global equity long-short fund that makes concentrated investments in public and private companies. The Investment Manager focuses on conducting deep fundamental research in order to identify and monetize differentiated ideas. The Master Fund's mission is to compound capital at high rates over the long term through a concentrated portfolio of best ideas.

Key components of the Investment Manager's investment philosophy include:

- *Thought Leadership:* The Investment Manager strives to be early to themes and invest on behalf of the Master Fund in differentiated ideas. The Investment Manager believes that one of the best ways to create strong alpha is to identify companies and trends well before others, particularly in areas less explored by the market. The Investment Manager seeks to not only find ideas that are underfollowed or misunderstood, but to also size and monetize them before they are fully appreciated by the market. The Investment Manager seeks to develop deep sector expertise in these areas and to share with companies its insights and strategic guidance along with financial capital to underscore the Investment Manager's commitment to the partnership.
- *Fundamental Analysis:* The Investment Manager's approach is concentrated and fundamental, with the goal of investing in companies that it believes are being valued substantially above or below their intrinsic value. Combining strong sector expertise with a rigorous diligence process, the Investment Manager seeks to develop differentiated and high conviction views.
- *Long-Term Horizon:* The Investment Manager underwrites the value of a business based on its belief about the medium- to long-term earnings trajectory. While the Investment Manager's foundation is long-term thinking, the Investment Manager closely follows near-term data points that provide evidence of whether the long-term view is still intact.
- *Enhancing Outcomes:* In addition to finding differentiated ideas and conducting deep diligence, the Investment Manager strives to monetize returns more robustly through valuation discipline, concentrated sizing when conviction is high, and dynamic portfolio management that is optimizing for best ideas.
- *Public and Private Investments:* The Investment Manager believes it is deeply synergistic to analyze public and private investments and will opportunistically invest in private companies with the goal of enhancing Fund returns.

- *Capital Preservation:* The Investment Manager focuses on limiting permanent loss of capital in the medium-term. The Investment Manager's risk management philosophy is grounded in this principle rather than in minimizing short-term portfolio volatility.

Avala will primarily invest in public and private companies, though from time to time Avala may determine the most attractive risk-adjusted return is presented by other types of financial instruments. In addition, Avala may use derivatives or other securities for the purposes of hedging risks including, but not limited to, foreign exchange.

Investors should refer to the Funds' Offering Documents for additional details and a full description of the investment program.

### ***Risk of Loss Factors***

**The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the Clients advised by Avala. These risk factors include only those risks Avala believes to be material, significant or unusual and relate to particular, significant investment strategies or methods of analysis employed by the Firm.**

An investment involves significant risks, and is suitable only for those persons who can bear the economic risk of the loss of their entire investment, who have limited need for liquidity in their investment, and who have met the conditions set forth in the Offering Documents. There can be no assurances that Avala will achieve its investment objectives. An investment carries with it the inherent risks associated with investments in publicly-traded stocks and bonds, options, and related instruments, including, without limitation, the risks described below. Each prospective investor should carefully review the Offering Documents and the documents referred to herein before deciding to invest with Avala.

### **Risks Relating to Investment Strategies**

#### ***Risk of Loss***

No guarantee or representation is made that the Funds' investment program, including each Fund's investment objective, diversification strategies or risk monitoring goals, will be successful. Investment results may vary substantially over time.

No assurance can be made that profits will be achieved or that substantial or complete losses will not be incurred.

#### ***Competition; Availability of Investments***

Certain markets in which the Funds may invest are extremely competitive for attractive investment opportunities. As a result, there can be no assurance that the Funds will be able to identify or successfully pursue attractive investment opportunities in such environments. Subject to the Investment Manager's policies and procedures, the personnel of the Investment Manager may discuss with other market participants (including other investment managers) information regarding existing and potential investments (including information that would otherwise be maintained confidentially). While these interactions are intended to benefit the Funds, there is a risk that the sharing of such ideas could result in increased competition for potential investments, and result in the Funds not being able to make certain investments in the amounts or at the prices that would have been obtainable had the personnel not shared such information.

#### *Discretion of the Investment Manager; New Strategies and Techniques*

While the Investment Manager generally seeks to employ the representative investment strategies and techniques discussed herein, the Investment Manager (subject to the policies and control of the General Partner) has considerable discretion in the types of financial instruments the Funds may trade and has the right to modify the investment strategies and techniques of the Funds without the consent of the Investors. Additionally, the strategies that the Investment Manager may pursue for the Funds are not limited to the strategies described herein; furthermore, such strategies may change and evolve materially over time. The Investment Manager has broad latitude with respect to the management of the Funds' risk parameters. Prospective Investors should recognize that by investing in the Funds, they are placing their capital indirectly under the full discretionary management of the Investment Manager and authorizing the Investment Manager indirectly to trade for the Funds using whatever strategies in such manner as the Investment Manager may determine. New investment strategies and techniques may not be thoroughly tested in the market before being employed and may have operational or theoretical shortcomings which could result in unsuccessful trades and, ultimately, losses to the Funds. In addition, any new investment strategy or technique developed by the Funds may be more speculative than earlier investment strategies and techniques and may involve material and as-yet-unanticipated risks that could increase the risk of an investment in the Funds. Investors generally will not be informed of any changes in the Investment Manager's strategies, techniques, discretionary approach and tactics. There can be no assurance that the Investment Manager will be successful in applying its approach and there is material risk that an investor may suffer significant impairment or total loss of its capital.

#### *Volatility Risk*

The Funds' investment program may involve the purchase and sale of relatively volatile financial instruments and/or investments in volatile markets. Fluctuations or prolonged changes in the volatility of such financial instruments and/or markets can adversely affect the value of investments held by the Funds.

#### *Diversification and Concentration*

The Funds' main portfolio is expected to be concentrated in a limited number of financial instruments. In addition, the Funds' portfolio may become significantly concentrated in financial instruments related to a single or a limited number of issuers, industries, sectors, strategies, countries or geographic regions. This limited diversification may result in the concentration of risk, which, in turn, could expose the Funds to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in such financial instruments.

#### *Long/Short*

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

### *Short Selling*

The success of the Funds' short selling investment strategy depends upon the Investment Manager's ability to identify and sell short securities that are overvalued. **A short sale creates the risk of a theoretically unlimited loss**, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Funds of buying those securities to cover the short position. There can be no assurance that the Funds will be able to maintain the ability to borrow securities sold short. In such cases, the Funds can be "bought in" (i.e., forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further if the demand to buy such securities outpaces the available supply, thereby exacerbating the loss.

For instance, a so-called "short squeeze" can occur when the price of securities in which the Funds have an open short position rise sharply in a short time frame. The rapid rise may be a result of (i) multiple short sellers seeking to cover their short positions in the same time frame by purchasing the security; (ii) market participants collectively purchasing a significant amount of shares; and/or (iii) one or more lenders of a security that was used to facilitate a short position suddenly demanding the return of the security that has been loaned. A "short squeeze" may result in the Funds having to prematurely close out a short position at unattractively high prices, resulting in a substantial loss. Further, the risk of a "short squeeze" likely will increase if other short sellers, market participants, and/or lenders become aware of the Funds' short positions, including, without limitation, as a result of legally-required reporting with respect to the Funds' ownership of options to purchase the underlying security being shorted.

Short strategies can also be implemented synthetically through various instruments and be used with respect to indices or in the over-the-counter market and with respect to futures and other instruments. In some cases of synthetic short sales, there is no floating supply of an underlying instrument with which to cover or close out a short position and the Funds may be entirely dependent on the willingness of over-the-counter market makers to quote prices at which the synthetic short position may be unwound. There can be no assurance that such market makers will be willing to make such quotes. Short strategies can also be implemented on a leveraged basis. Further, even though the Funds secure a "good borrow" of the security sold short at the time of execution, the lending institution may recall the lent security at any time, thereby forcing the Funds to purchase the security at the then-prevailing market price, which may be higher than the price at which such security was originally sold short by the Funds.

### *Long-Term*

The success of the Funds' long-term investment strategy depends upon the Investment Manager's ability to identify and purchase securities that are undervalued and hold such securities so as to maximize value on a long-term basis. In pursuing any long-term strategy, the Funds may forego value in the short-term or temporary investments in order to be able to avail the Funds of additional and/or longer-term opportunities in the future. Consequently, the Funds may not capture maximum available value in the short-term, which may be disadvantageous, for example, for Investors who withdraw all or a portion of their capital accounts before such long-term value may be realized by the Funds.

### *Short-Term Market Considerations*

The Investment Manager's trading decisions may be made on the basis of short-term market considerations, and the portfolio turnover rate could result in significant trading-related expenses.

### *Leverage and Borrowing*

#### *Leverage for Investment Purposes*

The use of leverage allows each of the Funds to make additional investments, thereby increasing its exposure to assets, such that its total assets may be greater than its capital. However, leverage will also magnify the volatility of changes in the value of the Funds' portfolio. Thus, while leverage presents opportunities for increasing the total return on investments, it has the effect of potentially magnifying losses as well. Accordingly, any event which adversely affects the value of an investment is likely to be magnified to the extent leverage is utilized. The cumulative effect of the use of leverage by the Funds in a market that moves adversely to its investments could result in substantial losses to the Funds, which would be greater than if the Funds were not leveraged.

#### *Borrowing for Cash Management Purposes*

The Funds have the authority to borrow for cash management purposes, such as to satisfy withdrawal requests. The rates at and terms on which the Funds can borrow will affect the operating results of the Funds.

#### *Collateral*

The instruments and borrowings utilized by the Funds to leverage investments may be collateralized by all or a portion of the Master Fund's portfolio. Accordingly, the Funds may pledge their financial instruments in order to borrow or otherwise obtain leverage for investment or other purposes. Should the financial instruments pledged to brokers to secure the Funds' margin accounts decline in value, the Funds could be subject to a "margin call," pursuant to which the Funds must either deposit additional funds or financial instruments with the broker or suffer mandatory liquidation of the pledged financial instruments to compensate for the decline in value. The banks and dealers that provide financing to the Funds can apply essentially discretionary margin, "haircut," financing and collateral valuation policies. Changes by counterparties in any of the foregoing may result in large margin calls, loss of financing and forced liquidations of positions at disadvantageous prices. Lenders that provide other types of asset-based or secured financing to the Master Fund may have similar rights. There can be no assurance that the Funds will be able to secure or maintain adequate financing.

#### *Costs*

Borrowings are subject to interest, transaction and other costs, and other types of leverage also involve transaction and other costs. Any such costs may or may not be recovered by the return on the Funds' portfolio.

#### *Lending of Portfolio Securities*

The Funds may lend securities on a collateralized and an uncollateralized basis from its portfolio to creditworthy securities firms and financial institutions. While a securities loan is outstanding, the Funds will continue to receive the equivalent of the interest or dividends paid by the issuer on the securities, as well as interest on the investment of the collateral or a fee from the borrower. The risks in lending securities, as with other extensions of secured credit, if any, consist of possible delay in receiving additional collateral, if any, or in recovery of the securities or possible loss of rights in the collateral, if any, should the borrower fail financially.



### *Lack of Control*

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

### *Service on Boards of Directors*

Personnel of the Investment Manager and its affiliates may serve as directors or board observers (or similar roles) of companies in which the Funds invest, including companies held as private investments. In such case, there exists the risk that the Funds are restricted in transacting in or redeeming its investment in that company as a result of, among other things, legal restrictions on transactions by company directors or affiliates. Further, in the event that material non-public information is obtained with respect to such companies, or the Funds become subject to trading restrictions pursuant to the internal trading policies of such companies or as a result of applicable laws or regulations, the Funds may be prohibited for a period of time from purchasing or selling the securities of such companies, which prohibition may have an adverse effect on the Funds.

### *Hedging Transactions*

The Funds may utilize securities for risk management purposes in order to: (i) protect against possible changes in the market value of the Funds' investment portfolio resulting from fluctuations in the markets and changes in interest rates; (ii) protect the Funds' unrealized gains in the value of its investment portfolio; (iii) facilitate the sale of any securities; (iv) enhance or preserve returns, spreads or gains on any security in the Funds' portfolio; (v) hedge against a directional trade; (vi) hedge the interest rate, credit or currency exchange rate on any of the Funds' securities; (vii) protect against any increase in the price of any securities the Funds anticipate purchasing at a later date; or (viii) act for any other reason that the Investment Manager deems appropriate. The Funds will not be required to hedge any particular risk in connection with a particular transaction or its portfolio generally. The Investment Manager may be unable to anticipate the occurrence of a particular risk and, therefore, may be unable to hedge against it. While the Funds may each enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Funds than if they had not engaged in any such hedging transaction. Moreover, the portfolio will always be exposed to certain risks that cannot be hedged.

## **Risks Relating to Specific Sectors and Types of Companies**

### *Technology, Media and Telecommunications Sector*

The Funds will invest in the financial instruments of issuers in the technology sector, which investments involve substantial risks. These risks include but are not limited to: (i) the fact that certain companies in the portfolio of the Funds may have limited operating histories; (ii) rapidly changing technologies and products which may quickly become obsolete; cyclical patterns in information technology spending which may result in inventory write-offs, cancellation of orders and operating losses; (iii) scarcity of management, engineering and marketing personnel with appropriate technological training; (iv) the possibility of lawsuits related to technological patents; (v) changing investors' sentiments and preferences with regard to technology sector investments (which are generally perceived as risky) with their resultant effect on the price of underlying financial instruments; and (vi) volatility in the U.S. stock markets affecting the prices of technology company

financial instruments, which may cause the Funds to experience substantial volatility. The Funds may also invest in the financial instruments of issuers in the business services sector (such as providers of credit risk analysis and reporting, educators, payroll providers, merchant processors and staffing providers, among others), which investments generally involve a number of the risks associated with the technology sector.

Investing in financial instruments of media companies (which may engage in the production or distribution of television, film, radio, internet and other content) and telecommunications companies (which may provide traditional and wireless telephone services, paging, data transmission services, equipment retailing and internet services) also involves substantial risks. Whereas traditionally media and telecommunications companies were considered to be in different sectors, these sectors have increasingly converged and oftentimes overlap in the services they provide. Companies in the media and telecommunications sector may encounter distressed cash flows due to the need to commit substantial capital to meet increasing competition, particularly in formulating new products and services using new technology. In addition, media and telecommunications companies may be subject to greater price volatility than the overall market due to a variety of factors, including: changing government regulations, changing consumer tastes, intense competition, and strong market reactions to technological developments throughout the industry.

To the extent the Funds make any early-stage investments, the Funds expect to invest in companies whose performance may be highly correlated with their ability to successfully implement new technology and/or exploit existing technologies (such as in FinTech companies). Technology-reliant sectors are challenged by various factors, including rapidly changing market conditions and participants, new competing products and services and improvements in existing products and services. There is no assurance that products or services sold by companies will not be rendered obsolete or adversely affected by competing products and services or other challenges.

In the event that technology-reliant sectors decline or that companies are unable to utilize technology successfully and competitively, returns to Investors may decrease.

#### *Consumer Sector*

The Funds invest in the financial instruments of issuers in the consumer sector, which involves substantial risk. The success of consumer product manufacturers and retailers is tied closely to the performance of the overall domestic and global economy, interest rates, inflation rates, global supply chains, competition and consumer confidence. Success depends heavily on disposable household income and consumer spending. Also, companies in the consumer discretionary sector may be subject to severe competition, which may have an adverse impact on their respective profitability. Changes in demographics and consumer tastes can also affect the demand for, and success of, consumer products and services in the marketplace.

#### *Micro-, Small- and Medium-Capitalization Companies*

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

### *Investment and Trading Out of Sector*

The Funds may trade in other regions or sectors, including for hedging purposes and/or on an opportunistic basis. The profit or loss from those positions could have a material impact on the Funds' performance.

## **Risks Relating to Specific Investments**

### *Equity Securities Generally*

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

### *Illiquid Securities*

Certain securities whether or not designated by the Investment Manager as special investments, may be illiquid because, for example, they are subject to legal or other restrictions on transfer or there is no liquid market for such securities. Valuation of such securities may be difficult or uncertain because there may be limited information available about the issuers of such securities. The market prices, if any, for such securities tend to be volatile and may not be readily ascertainable, and the Funds may not be able to sell them when they desire to do so or to realize what they perceive to be their fair value in the event of a sale. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. The Funds may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. As a result, the Funds may be required to hold such securities despite adverse price movements. Even those markets which the Investment Manager expects to be liquid can experience periods, possibly extended periods, of illiquidity. Occasions have arisen in the past where previously liquid investments have rapidly become illiquid.

### *Initial Public Offerings*

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

### *Currencies*

A principal risk in trading currencies is the rapid fluctuation in the market prices of currency contracts. Prices of currency contracts traded by the Funds are affected generally by relative interest rates, which in turn are influenced by a wide variety of complex and difficult to predict factors such as money supply and demand, balance of payments, inflation levels, fiscal policy, and political and economic events. In addition, governments from time to time intervene, directly and by regulation,

in these markets, with the specific effect, or intention, of influencing prices which may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations.

#### *Preferred Stock*

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

#### *Restricted Securities*

Restricted securities cannot be sold to the public without registration under the Securities Act. Unless registered for sale, restricted securities can be sold only in privately negotiated transactions or pursuant to an exemption from registration (e.g., under Rule 144A of the Securities Act). Although these securities may be resold in privately negotiated transactions, because there is often little liquidity for these securities, they may be difficult and take a substantial amount of time to sell, and the prices realized from these sales could be less than those originally paid by the Funds. Restricted securities may involve a high degree of business and financial risk which may result in substantial losses.

#### *Undervalued Securities*

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

#### *Unlisted Securities*

Unlisted securities may involve higher risks than listed securities. Because of the absence of any trading market for unlisted securities, it may take longer to liquidate, or it may not be possible to liquidate, positions in unlisted securities than would be the case for publicly traded securities. Companies whose securities are not publicly traded may not be subject to public disclosure and other investor protection requirements applicable to publicly traded securities.

#### *Warrants*

Warrants are generally exercisable for a certain period of time at a certain purchase price that is based on the valuation of a certain security as of a certain date. In the event that the price per share of such security does not exceed the exercise price of a warrant during the period when such warrant is exercisable, the warrants may not have any value. Additionally, until the Funds acquire such security upon exercise of all or a portion of the warrant, such warrant will generally not provide the Funds with any rights of a holder of such security. Furthermore, upon exercise of such warrant, the Funds will generally be entitled to exercise the rights of a holder of such security only as to matters for which the date to exercise such rights occurs on or after the exercise date.

#### *When-Issued and Forward Commitment Securities*

The purchase of securities on a “when-issued” basis involves a commitment by the Funds to purchase or sell securities at a future date (typically one or two months later). No income accrues on securities that have been purchased on a when-issued basis prior to delivery to the Funds. When-issued securities may be sold prior to the settlement date. If the Funds dispose of the right to acquire a when-issued security prior to its acquisition, it may incur a gain or loss. In addition, there is a risk that securities purchased on a when-issued basis may not be delivered to the Funds. In such cases, the Funds may incur a loss.

#### *Special Investments*

##### *Risk of Early Stage Companies*

The Funds may make investments in the private equity of companies at an early stage of development, which involves a high degree of business and financial risk. Early-stage companies often experience unexpected problems in the areas of product development, manufacturing, marketing, financing and general management, which, in some cases, cannot be adequately solved. Early-stage companies with little or no operating history may require substantial additional capital to support expansion or to achieve or maintain a competitive position, may produce substantial variations in operating results from period to period or may operate at a loss. Such companies may face intense competition, including competition from companies with greater financial resources, more extensive development, better marketing and service capabilities and a larger number of qualified management and technical personnel. Such risks may adversely affect the performance of such investments and result in substantial losses. There can be no assurance that such companies will ever be profitable or even have assets or products that generate meaningful revenue.

Investments in companies in a later-stage of development also involve substantial risks. These companies typically have obtained capital in the form of debt and/or equity to expand rapidly, reorganize operations, acquire a business or develop new products and markets. These activities by definition involve a significant amount of change, which can give rise to significant problems in sales, manufacturing and general management of business activities.

Furthermore, the marketplace for such “venture capital investing” has become increasingly competitive. Involvement by financial intermediaries has increased, substantial amounts of funds have been dedicated to making investments in the private sector and the competition for investment opportunities is at high levels. There can be no assurances that the Investment Manager will locate an adequate number of attractive investment opportunities. To the extent that the Funds experience increased competition for investments, returns to investors may vary.

##### *Control Issues*

Although the Investment Manager may seek protective provisions, including, possibly, board representation, in connection with certain of its private equity investments, to the extent the Funds take minority positions in companies in which they invest, the Investment Manager may not be in a position to exercise control over the management of such companies, and, accordingly, may have a limited ability to protect its position in such companies. In such instances, the success of the Funds’ investments will depend in part on the performance and abilities of such companies’ controlling shareholders. Because the Funds will not control such companies, the Funds’ ability to exit from such investments may be limited. Additionally, the Funds are likely to have a reduced ability to influence management of such companies, and the Investment Manager may also have disagreements with controlling shareholders over the strategy and operations of such companies.

#### *Intellectual Property Risks*

Many private companies rely on a combination of patent, copyright, trademark and trade secret protection and non-disclosure agreements to establish and protect proprietary rights, including source code. There can be no assurance that the Funds or a company will be able to protect these rights or will have the financial resources to do so, or that competitors will not develop technologies substantially equivalent or superior to a company's technologies. Unauthorized access or theft of source code and other proprietary information may make a portfolio company or its products and services more vulnerable to malicious attack. While piracy adversely affects company revenue, the impact on revenue from outside the U.S. is significant, particularly in countries where laws are less protective of intellectual property rights. The absence of harmonized patent laws makes it more difficult to ensure consistent respect for patent rights. Reductions in the legal protection for software intellectual property rights could adversely affect such companies.

#### *Highly Leveraged Companies*

Investments in private equity of highly leveraged companies involve a high degree of risk. The use of leverage may increase the exposure of such companies to adverse economic factors such as downturns in the economy or deterioration in the conditions of such companies or their respective industries. In using leverage, these companies may be subject to terms and conditions that include restrictive financial and operating covenants, which may impair their ability to finance or otherwise pursue their future operations or otherwise satisfy additional capital needs. Moreover, rising interest rates will, unless such rates are fixed pursuant to the terms of any such indebtedness, significantly increase such companies' interest expense, causing losses and/or the inability to service debt levels. In the event any such company cannot generate adequate cash flow to meet debt service, the Funds may suffer a partial or total loss of capital invested in the company, which, depending on the size of the Funds' investments, could adversely affect the return on the capital of the Funds. The leveraged capital structure of such companies will increase the exposure of the Funds' investments to any deterioration in a company's condition or industry, competitive pressures, an adverse economic environment or rising interest rates.

#### *Reliance on Company Management*

Many private companies rely on the services of a limited number of key individuals to manage the business and operations of the company, the loss of any one of whom could significantly adversely affect the company's performance. While the Investment Manager may seek to monitor and review the performance of a private investment company's management team, management of each company will have day-to-day responsibility of managing such portfolio company.

#### *American Depositary Receipts and Global Depositary Receipts*

American Depositary Receipts ("ADRs") are receipts issued by a U.S. bank or trust company evidencing ownership of underlying securities issued by non-U.S. issuers. ADRs may be listed on a national securities exchange or may be traded in the over-the-counter market. Global Depositary Receipts ("GDRs") are receipts issued by either a U.S. or non-U.S. banking institution representing ownership in a non-U.S. company's publicly traded securities that are traded on non-U.S. stock exchanges or non-U.S. over-the-counter markets. Holders of unsponsored ADRs or GDRs generally bear all the costs of such facilities. The depository of an unsponsored facility frequently is under no obligation to distribute investor communications received from the issuer of the deposited security or to pass through voting rights to the holders of depositary receipts in respect of the deposited securities. Investments in ADRs and GDRs pose, to the extent not hedged, currency exchange risks (including blockage, devaluation and non-

exchangeability), as well as a range of other potential risks relating to the underlying shares, which could include expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains, other income or gross sale of disposition proceeds, political or social instability or diplomatic developments that could affect investments in those countries, illiquidity, price volatility and market manipulation. In addition, less information may be available regarding the underlying shares of ADRs and GDRs, and non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to, or as uniform as, those of U.S. companies. Such risks may have a material adverse effect on the performance of such investments and could result in substantial losses.

#### *Convertible Securities*

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

#### *Debt Securities*

Although the Funds will trade primarily in equities, the Funds also may invest in debt or other fixed income securities, including non-investment grade securities, sovereign debt and/or similar obligations and instruments. Debt securities of all types of issuers may have speculative characteristics, regardless of whether they are rated. The issuers of such instruments (including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal in accordance with the terms of the obligations.

#### *Closed-End Funds*

Investments in closed-end funds are non-redeemable and are subject to the same risks as other publicly traded equity securities. There may be no public market for units of closed-end funds, which often trade at a discount from their net asset values.

#### *Business Development Companies*

Investments in closed-end funds that elect to be treated as business development companies ("BDCs") may be subject to a high degree of risk. BDCs typically invest in small and medium-sized private and certain public companies that may not have access to public equity markets for capital raising. As a result, a BDC's portfolio typically will include a substantial amount of securities purchased in private placements, and its portfolio may carry risks similar to those of a private equity or venture capital fund. Securities that are not publicly registered may be difficult to value and may be difficult to sell at a price representative of their intrinsic value. Small and medium-sized companies also may have fewer lines of business so that changes in any one line of business may have a greater impact on the value of their stock than is the case of a larger company. Some BDCs invest substantially, or even exclusively, in one sector or industry group and therefore carry risk of that particular sector or industry group. To the extent a BDC focuses its investments in a specific sector, the BDC will be susceptible to adverse conditions and economic or regulatory occurrences affecting the specific sector or industry group, which tends to increase volatility and result in higher risk. Investments in BDCs are subject to various risks, including management's ability to meet the BDC's investment objective, and to manage the BDC's portfolio when the underlying securities are redeemed or sold, during periods of market turmoil and as investors' perceptions regarding a BDC or its underlying investments change. BDC shares are not redeemable at the option of the BDC shareholder and, as with shares of other closed-end funds, they may trade in the secondary market at a discount to their net asset value. BDCs generally qualify as "regulated investment companies" under the U.S. federal tax laws and, provided they distribute all of their income in the time and

manner as required by the tax law and satisfy certain diversification and source of income requirements, generally will not pay U.S. federal income taxes.

Certain BDCs in which the Funds may invest may employ the use of leverage in their portfolios through borrowings or the issuance of preferred stock. While leverage often serves to increase the yield of a BDC, this leverage also subjects the BDC to increased risks, including the likelihood of increased volatility and the possibility that the BDC's common share income will fall if the dividend rate on any preferred shares or the interest rate on any borrowings rises. The Funds may be limited by provisions of the Investment Company Act of 1940, as amended, that generally limit the amount the Funds can invest in any one BDC to 3% of the BDC's total outstanding stock. As a result, the Funds may be required to hold a smaller position in a BDC than it would absent this restriction. The Funds will indirectly bear its proportionate share of any management and other operating expenses, and of any performance based or incentive fees, charged by the BDCs in which it invests, in addition to the expenses paid by the Funds.

#### *Derivative Instruments*

Certain swaps, options, warrants and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, credit risk, legal risk and operations risk. The regulatory and tax environment for derivative instruments in which the Funds may participate is evolving, and changes in the regulation or taxation of such instruments may have a material adverse effect on the Funds.

#### *Regulation in the Derivatives Industry*

Regulatory restraints, such as requirements related to, among others, recordkeeping, reporting, portfolio reconciliation, central clearing, minimum margin for uncleared over-the-counter instruments and mandatory trading on electronic facilities, and other transaction-level obligations may restrict the instruments that the Funds may trade and may cause the Funds to forego using certain trading counterparties, which may negatively impact the Funds. Parties that act as dealers in swaps are also subject to extensive business conduct standards, additional "know your counterparty" obligations, documentation standards and capital requirements. All of these requirements add costs to the legal, operational and compliance obligations of the Investment Manager and/or the Funds, and increase the amount of time that the Investment Manager spends on non-investment-related activities. Requirements such as these also raise the costs of entering into derivative transactions, and these increased costs will likely be passed on to the Funds.

These rules are operationally and technologically burdensome for the Investment Manager and the Funds. These compliance obligations require employee training and use of technology, and there are operational risks borne by the Funds in implementing procedures to comply with many of these additional obligations.

These regulations may also result in the Funds forgoing the use of certain trading counterparties (such as broker-dealers and futures commission merchants ("FCMs")), as the use of other parties may be more efficient for the Funds from a regulatory perspective. However, this could limit the Funds' trading activities, create losses, preclude the Funds from engaging in certain transactions or prevent the Funds from trading at optimal rates and terms.

Many of these requirements were implemented under legislation intended to reform the U.S. financial regulatory system, the EU Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (known as the European Market Infrastructure Regulation, or "EMIR"), and similar regulations globally. In the United States, regulatory responsibility for derivatives is divided between the SEC and the CFTC, a distinction that does not exist in any other jurisdiction. The SEC has



regulatory authority over “security-based swaps” and the CFTC has regulatory authority over “swaps.” EMIR is being implemented in phases through the adoption of delegated acts by the European Commission. As a result of the SEC and CFTC bifurcation and the different pace at which the SEC, the CFTC, the European Commission and other international regulators have promulgated necessary regulations, different transactions are subject to different levels of regulation. Though many rules and regulations have been finalized, there are others, particularly SEC regulations with respect to security-based swaps, that are still in the proposal stage or are expected to be introduced in the future.

The following describes derivatives regulations that may have the most significant impact on the Funds:

#### *Reporting*

Most swap transactions have become subject to anonymous “real time reporting” requirements, meaning that information relating to transactions entered into by the Funds will become visible to the market in ways that may impair the Funds’ ability to enter into additional transactions at comparable prices or could enable competitors to “front-run” or replicate the Funds’ strategies.

#### *Central Clearing*

In order to mitigate counterparty risk and systemic risk in general, various U.S. and international regulatory initiatives, including EMIR, are underway to require certain derivatives to be cleared through central clearinghouses. In the United States, clearing mandates affect certain interest rate and credit default swaps. The CFTC and the SEC may introduce clearing requirements for additional classes of derivatives in the future. EMIR also requires OTC derivatives contracts meeting specific criteria to be cleared through central counterparties.

While such clearing requirements may be beneficial for the Funds in many respects (for instance, they may reduce the counterparty risk to the dealers to which the Funds would be exposed under non-cleared derivatives), the Funds could be exposed to new risks, such as the risk that an increasing percentage of derivatives will be required to be standardized and/or cleared through central clearinghouses, and, as a result, the Funds may not be able to hedge its risks or express an investment view as well as it would have been able to had it used customizable derivatives available in the over-the-counter markets. The Funds may have to split its derivatives portfolio between centrally cleared and over-the-counter derivatives, which may result in operational inefficiencies and an inability to offset risk between centrally cleared and over-the counter positions, and which could lead to increased costs.

Another risk is that the Funds may be subject to more onerous and more frequent (daily or even intraday) margin calls from both the Funds’ FCM and the clearinghouse. Virtually all margin models utilized by the clearinghouses are dynamic, meaning that unlike traditional bilateral swap contracts where the amount of initial margin posted on the contract is typically static throughout the life of the contract, the amount of the initial margin that is required to be posted in respect of a cleared contract will fluctuate, sometimes significantly, throughout the life of the contract. The dynamic nature of the margin models utilized by the clearinghouses and the fact that the margin models might be changed at any time may subject the Funds to an unexpected increase in collateral obligations by clearinghouses during a volatile market environment, which could have a detrimental effect on the Funds. Clearinghouses also limit collateral that they will accept to cash, U.S. treasuries and, in some cases, other highly rated sovereign and private debt instruments, which may require the Funds to borrow eligible securities from a dealer to meet margin calls and raise the costs of cleared trades to the Funds. In addition, clearinghouses may not allow the Funds to portfolio-margin its positions, which may increase the Funds’ costs.

Although standardized clearing for derivatives is intended to reduce counterparty risk (for instance, it may reduce the counterparty risk to the dealers to which the Funds would have been exposed under OTC derivatives), it does not eliminate risk. Derivatives clearing may also lead to concentration of counterparty risk, namely in the clearinghouse and the Funds' FCM, subjecting the Funds to the risk that the assets of the FCM are insufficient to satisfy all of the FCM's payment obligations, leading to a payment default. The failure of a clearinghouse or FCM could have a significant impact on the financial system. Even if a clearinghouse does not fail, large losses could force significant capital calls on FCMs during a financial crisis, which could lead FCMs to default and thus worsen the crisis.

#### *Swap Execution Facilities*

In addition to the central clearing requirement, certain swap transactions are required to trade on regulated electronic platforms such as swap execution facilities ("**SEFs**"), which require the Funds to subject themselves to regulation by these venues and subject the Funds to the jurisdiction of the CFTC. CFTC rules governing the operation of SEFs continue to evolve; the SEC has yet to finalize rules related to security-based SEFs.

The EU regulatory framework governing derivatives is set not only by EMIR but also MiFID II. Among other things, MiFID II requires transactions in derivatives to be executed on regulated trading venues.

It is not clear whether these trading venues will benefit or impede liquidity, or how they will fare in times of market stress. Trading on these trading venues may increase the pricing discrepancy between assets and their hedges as products may not be able to be executed simultaneously, therefore increasing basis risk. It may also become relatively expensive for the Funds to obtain tailored swap products to hedge particular risks in its portfolio due to higher collateral requirements on bilateral transactions as a result of these regulations.

#### *Margin Requirements for Non-Cleared Swaps*

Rules issued by U.S., EU and other regulators globally (the "**Margin Rules**") impose various margin requirements on all swaps that are not centrally cleared, including the establishment of minimum amounts of initial margin that must be posted, and, in some cases, the mandatory segregation of initial margin with a third-party custodian. Although the Margin Rules are intended to increase the stability of the derivatives market, the overall amount of margin that the Funds will be required to post to swap counterparties may increase by a material amount, and as a result the Funds may not be able to deploy capital as effectively. Additionally, to the extent the Funds are required to segregate initial margin with a third party custodian, additional costs may be incurred by the Funds.

#### *Call and Put Options*

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

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

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

#### *Index or Index Options*

The value of an index or index option fluctuates with changes in the market values of the assets included in the index. Because the value of an index or index option depends upon movements in the level of the index rather than the price of a particular asset, whether the Funds will realize appreciation or depreciation from the purchase or writing of options on indices depends upon movements in the level of instrument prices in the assets generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular assets.

#### *Index Futures*

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

#### *Credit Default Swaps*

Credit default swaps can be used to implement the Investment Manager's view that a particular credit, or group of credits, will experience credit improvement or deterioration. In the case of expected credit improvement, the Funds may sell credit default protection in which it receives a premium to take on the risk. In such an instance, the obligation of the Funds to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. The Funds may also buy credit default protection with respect to a referenced entity if, in the Investment Manager's judgment, there is a high likelihood of credit deterioration. In such instance, the Funds will pay a premium regardless of whether there is a credit event.

### *Futures Contracts*

The value of futures contracts depends upon the price of the securities, such as commodities, underlying them. The prices of futures contracts are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, as well as national and international political and economic events and policies. In addition, investments in futures contracts are also subject to the risk of the failure of any of the exchanges on which the Funds' positions trade or of its clearing houses or counterparties. Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the Funds from promptly liquidating unfavorable positions and subject the Funds to substantial losses or prevent the Funds from entering into desired trades. Also, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss. In extraordinary circumstances, a futures exchange or the CFTC could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

### *Non-U.S. Futures Transactions*

Foreign futures transactions involve executing and clearing trades on a foreign exchange. This is the case even if the foreign exchange is formally "linked" to a domestic exchange, whereby a trade executed on one exchange liquidates or establishes a position on the other exchange. No domestic organization regulates the activities of a foreign exchange, including the execution, delivery, and clearing of transactions on such an exchange, and no domestic regulator has the power to compel enforcement of the rules of the foreign exchange or the laws of the foreign country. Moreover, such laws or regulations will vary depending on the foreign country in which the transaction occurs. For these reasons, the Funds may not be afforded certain of the protections which apply to domestic transactions, including the right to use domestic alternative dispute resolution procedures. In particular, funds received from customers to margin foreign futures transactions may not be provided the same protections as funds received to margin futures transactions on domestic exchanges. In addition, the price of any foreign futures or option contract and, therefore, the potential profit and loss resulting therefrom, may be affected by any fluctuation in the foreign exchange rate between the time the order is placed and the time the foreign futures contract is liquidated or the time the foreign option contract is liquidated or exercised.

### *Forward Contracts*

The Funds may enter into forward contracts and options thereon, including non-deliverable forwards. The principals who deal in the forward contract market are not required to continue to make markets in such contracts. There have been periods during which certain participants in forward markets have refused to quote prices for forward contracts or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. The imposition of credit controls or price risk limitations by governmental authorities may limit such forward trading to less than that which the Investment Manager would otherwise recommend, to the possible detriment of the Funds. In its forward trading, the Funds will be subject to the risk of the failure of, or the inability or refusal to perform with respect to its forward contracts by, the principals with which the Funds trades. The Funds' assets on deposit with such principals will also generally not be protected by the same segregation requirements imposed on certain regulated brokers in respect of customer funds on deposit with

them. The Investment Manager may execute trades for the Funds in such markets through agents. Accordingly, the insolvency or bankruptcy of such parties could also subject the Funds to the risk of loss.

#### *Contracts for Differences*

Contracts for differences (“CFDs”) are privately negotiated contracts between two parties, buyer and seller, stipulating that the seller will pay to or receive from the buyer the difference between the nominal value of the underlying instrument at the opening of the contract and that instrument’s value at the end of the contract. The underlying instrument may be a single security, stock basket or index. A CFD can be set up to take either a short or long position on the underlying instrument. The buyer and seller are both required to post margin, which is adjusted daily. The buyer will also pay to the seller a financing rate on the notional amount of the capital employed by the seller less the margin deposit. As is the case with trading any financial instrument, there is the risk of loss associated with trading a CFD. There may be liquidity risk if the underlying instrument is illiquid because the liquidity of a CFD is based on the liquidity of the underlying instrument. A further risk is that adverse movements in the underlying security will require the posting of additional margin. CFDs also carry counterparty risk, i.e., the risk that the counterparty to the CFD transaction may be unable or unwilling to make payments or to otherwise honor its financial obligations under the terms of the contract. If the counterparty were to do so, the value of the contract may be reduced. Entry into a CFD transaction may, in certain circumstances, require the payment of an initial margin and adverse market movements against the underlying stock may require additional margin payments. CFDs may be considered illiquid. To the extent that there is an imperfect correlation between the return on the Funds’ obligation to its counterparty under the CFDs and the return on related assets in its portfolio, the CFD transaction may increase the Funds’ financial risk.

#### *Failure to Enter into Offsetting Trade*

To the extent the Funds invest in a commodity futures contract or long option, unless an offsetting trade is made, the Funds would be required to take physical delivery of the commodity underlying the future or option. To the extent the Investment Manager fails to enter into such offsetting trade prior to the expiration of the contract, the Funds may suffer a loss since none of the Funds or the Investment Manager has the operational capacity to accept physical delivery of commodities.

#### *Exotic Options*

Exotic options are typically, but not always, traded over-the-counter. OTC contracts may not trade in a liquid market and pricing may be opaque. The illiquidity of these markets can be exacerbated in times of market stress. The Funds may incur substantial costs entering into and exiting positions that could have a material impact on performance. Exotic options may be subject to a higher degree of pricing risk as demonstrated by instances in which different counterparties in the market employ different valuation and pricing methodologies to the same exotic option. Because exotic options can often be highly customized, there is lower visibility with respect to the pricing and valuation of these instruments. Exotic options may be subject to high levels of price volatility. For example, in the case of barrier options, as the price of the asset underlying the option trades closer to a barrier level, the delta of the option (i.e., the ratio of the change in the price of the underlying asset to the corresponding change in the price of the option) and the gamma of the option (i.e., the rate of change of the delta with respect to the underlying asset’s price) may become very high. Exotic options may be subject to higher levels of model risk than commonly traded options because standard models are not able to adequately capture or predict the risks associated with the exotic options. Exotic options may be “path dependent.” This means that their terminal value (at exercise or expiration) depends upon the value of the underlying asset, not only at the time of exercise or expiration, but also at prior points in time. In this sense, the option’s terminal value depends upon the “path” taken by the underlying asset over the life of the option. For example, a barrier option’s value at expiration depends upon both the value of the underlying asset at expiration and whether the past value of the

underlying asset ever satisfied a barrier condition. In contrast, a vanilla option (e.g., a call option) is not path dependent. Its value at exercise or expiration depends on the value of the underlying asset only at that point in time. The additional features incorporated by exotic options require additional judgments regarding the likelihood of certain conditions being satisfied, any one of which can result in a loss if made incorrectly. An OTC option may be closed out only with the counterparty, although either party may engage in an offsetting transaction that puts that party in the same economic position as if it had closed out the option with the counterparty; however, the exposure to counterparty risk may differ. OTC options generally involve greater credit and counterparty risk than exchange-traded options.

#### *Exchange-Traded Funds*

Exchange-traded funds (“**ETFs**”) are publicly traded unit investment trusts, open-end funds or depository receipts that seek to track the performance and dividend yield of specific indices or companies in related industries. These indices may be either broad-based, sector, or international. However, ETF shareholders are generally subject to the same risk as holders of the underlying financial instruments they are designed to track. ETFs are also subject to certain additional risks, including the risk that their prices may not correlate perfectly with changes in the prices of the underlying financial instruments they are designed to track, and the risk of trading in an ETF halting due to market conditions or other reasons, based on the policies of the exchange upon which the ETF trades. Generally, each shareholder of an ETF bears a pro rata portion of the ETF’s expenses, including management fees. Accordingly, in addition to bearing their proportionate share of the Fund’s expenses (e.g., Management Fees and operating expenses), Investors may also indirectly bear similar expenses of an ETF.

#### *PIPE Transactions*

Private investments in public companies (each, a “**PIPE**”) whose stocks are quoted on stock exchanges or which trade in the over-the-counter securities market, may be entered into with smaller capitalization public companies, which will entail business and financial risks comparable to those of investments in the publicly-issued securities of smaller capitalization companies, which may be less likely to be able to weather business or cyclical downturns than larger companies and are more likely to be substantially hurt by the loss of a few key personnel. In addition, PIPE transactions will generally result in the Funds acquiring either restricted stock or an instrument convertible into restricted stock. As with investments in other types of restricted securities, such an investment may be illiquid. The Funds’ ability to dispose of securities acquired in PIPE transactions may depend on the registration of such securities for resale. Any number of factors may prevent or delay a proposed registration. Alternatively, it may be possible for securities acquired in a PIPE transaction to be resold in transactions exempt from registration in accordance with Rule 144 under the Securities Act, or otherwise under the U.S. federal securities laws. There can be no guarantee that there will be an active or liquid market for the stock of any small capitalization company due to the possible small number of stockholders. As a result, even if the Funds are able to have securities acquired in a PIPE transaction registered or sell such securities through an exempt transaction, the Funds may not be able to sell all the securities on short notice, and the sale of the securities could lower the market price of the securities. There is no guarantee that an active trading market for the securities will exist at the time of disposition of the securities, and the lack of such a market could hurt the market value of the Funds’ investments.

#### *Repurchase and Reverse Repurchase Agreements*

In a reverse repurchase transaction, the Funds “buy” securities issued from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such securities at the price paid by the Funds, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by the Funds involve certain risks. For example, if

the seller of securities to the Funds under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, the Funds will seek to dispose of such securities, which action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, the Funds' ability to dispose of the underlying securities may be restricted. It is possible, in a bankruptcy or liquidation scenario, that the Funds may not be able to substantiate its interest in the underlying securities. Finally, if a seller defaults on its obligation to repurchase securities under a reverse repurchase agreement, the Funds may suffer a loss to the extent that it is forced to liquidate its position in the market, and proceeds from the sale of the underlying securities are less than the repurchase price agreed to by the defaulting seller. Similar elements of risk arise in the event of the bankruptcy or insolvency of the buyer.

#### *Special Purpose Acquisition Companies*

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

#### *Digital Assets*

A small portion of the Funds' portfolio may include investments in digital assets, virtual currencies, cryptocurrencies and/or other liquid coins and tokens (collectively, "**Digital Assets**"). Certain risks relating to Digital Assets generally differ from those of traditional currencies, commodities or securities. Importantly, Digital Assets are oftentimes not directly backed by a central bank or a nation, supranational or quasi-national organization, any hard assets, human capital, or other form

of credit. Rather Digital Assets are market based: a Digital Asset's value is determined by (and fluctuates often, according to) supply and demand factors, and the value that various market participants place on it through their mutual agreement.

There is also significant uncertainty surrounding the regulation of Digital Assets. To the extent Digital Assets are unexpectedly determined to be a security, commodity interest, or other regulated asset, or a U.S., state, or foreign government or quasi-governmental agency exerts regulatory authority over Digital Asset use, exchange, trading and ownership, the value of a Digital Asset in which the Funds have invested may be adversely affected.

#### *Regulated Industries*

The Funds may invest in companies that operate in regulated industries. The operations of such companies will be subject to compliance with applicable regulations, and such companies may be subject to increased regulations resulting from both new requirements and re-regulation of previously de-regulated markets. Prices may be artificially controlled, and regulatory burdens may increase costs of operation. New or increased regulations could adversely and materially affect the performance of the companies in which the Funds invest. Additionally, such companies may be highly dependent on government contracts and quasi-governmental entity contracts (e.g., GSEs), which could further increase the risks of investing in such companies.

### **Risks Relating to Non-U.S. Investments and Non-U.S. Jurisdictions**

#### *Non-U.S. Exchanges*

The Funds may trade on exchanges or markets located outside the U.S. Trading on such exchanges or markets is not regulated by the SEC and the CFTC and may, therefore, be subject to more risks than trading on U.S. exchanges, such as the risks of exchange controls, expropriation, burdensome taxation, moratoria and political or diplomatic events. Risks in investments in non-U.S. securities may also include reduced and less reliable information about issuers and markets, less stringent accounting standards, illiquidity of securities and markets, higher brokerage commissions and custody fees.

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

Investing in the securities of companies (and, from time to time, governments) outside of the U.S. involves certain considerations not usually associated with investing in securities of U.S. companies or the U.S. government, including political and economic considerations, such as greater risks of expropriation, nationalization, confiscatory taxation, imposition of withholding or other taxes on interest, dividends, capital gains, other income or gross sale or disposition proceeds, limitations on the removal of assets and general social, political and economic instability; the relatively small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; the evolving and unsophisticated laws and regulations applicable to the securities and financial services industries of certain countries; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the Funds' investment opportunities. In addition, accounting and financial reporting standards that prevail outside of the U.S. generally are not as high as U.S. standards and, consequently, less information is typically available concerning companies located outside of the U.S. than for those located in the U.S. As a result, the Funds may be unable to structure its transactions to achieve the intended results or to mitigate all risks associated with such markets. It may also be difficult to enforce the Funds' rights in such markets. For example, securities traded on non-U.S. exchanges and the non-U.S. persons that trade these instruments are not subject to the jurisdiction of the SEC or the CFTC or the securities and commodities laws and regulations of the U.S.



Accordingly, the protections accorded to the Funds under such laws and regulations are unavailable for transactions on non-U.S. exchanges and with non-U.S. counterparties.

#### *Investment in Emerging Markets*

Investing in the securities of companies (and, from time to time, governments) in emerging markets, specifically, involves additional risks and special considerations not typically associated with investing in more established economies or markets. Such risks may include, in addition to the risks listed above in connection with non-U.S. investments generally, some, if not all of which, are heightened in the case of investments in emerging markets: higher dependence on exports and the corresponding importance of international trade; greater risk of substantial inflation; greater controls on foreign investment and preferential treatment for particular domestic industries or companies or other protectionist acts; increased likelihood of governmental involvement in and control over the economy; governmental decisions to cease support of economic reform programs or to impose centrally planned economies; longer settlement periods for transactions and less reliable clearance and custody arrangements; and less developed corporate laws regarding fiduciary duties of officers and directors and the protection of investors. In addition, both the independence of judicial systems and their immunity from economic, political or nationalistic influences remain largely untested in many emerging markets countries, and the tax systems of some emerging market economies have been marked by rapid change, which has sometimes occurred without warning and has been applied with retroactive effect, and in some cases, there is widespread non-compliance with tax laws, insufficient personnel to deal with the problem and inconsistent enforcement of the laws by inexperienced tax inspectors. All of such risk factors could potentially affect the Funds' ability to conduct effective due diligence in connection with its investments and to monitor investments or otherwise impact returns on any such investment.

#### *Dependence on Developing Countries*

The level of commodity prices can fluctuate widely due to supply and demand disruptions in major producing or consuming regions. In particular, recent growth in industrial production and gross domestic product has made many developing countries, particularly China, disproportionately large users of commodities and has increased the extent to which commodity prices are dependent on the markets of those developing countries. Political, economic and other developments that affect these developing countries may affect the level of certain commodities and, thus, the value of the Funds' investments. Because certain commodities may be produced in a limited number of countries and may be controlled by a small number of producers, political, economic and supply-related events in those countries could have a disproportionate impact on the prices of commodity futures contracts and other types of financial instruments in which the Funds will invest. Events affecting the prices of commodities tend to affect prices worldwide, regardless of the location of the event.

**THE PRECEDING DISCLOSURE REGARDING RISK FACTORS DOES NOT PURPORT TO BE A COMPLETE DESCRIPTION OR EXPLANATION OF THE RISKS ASSOCIATED WITH AN INVESTMENT IN THE FUNDS. SUBSTANTIAL ADDITIONAL RISKS MAY BE PRESENT IN CONNECTION WITH AN INVESTMENT IN THE FUNDS. QUALIFIED PROSPECTIVE INVESTORS SHOULD REVIEW IMPORTANT RISK DISCLOSURES IN RELEVANT FUND GOVERNING DOCUMENTS. AN INVESTMENT IN THE FUNDS COULD RESULT IN A COMPLETE AND TOTAL LOSS.**

**Item 9: Disciplinary Information**

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To the best of Avala's knowledge, there are no legal or disciplinary events that are material to an Investor's or prospective investor's evaluation of the Firm's advisory business or the integrity of its management.

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

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

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

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### ***Code of Ethics***

The Firm has adopted a “**Code of Ethics**” that establishes the high standard of conduct that it expects of its employees and procedures regarding the employees’ personal trading of securities. Avala’s employees are required to certify their adherence to the terms set forth in the Code of Ethics upon commencement of employment and annually thereafter. Employees also are required to provide quarterly certifications of compliance with certain Code of Ethics provisions.

The foundation of the Code of Ethics is based upon the following underlying fiduciary principles:

- Employees must at all times place the interests of the Funds and Investors first;
- Employees must ensure that all personal securities transactions are conducted consistent with the Code of Ethics’ Employee Personal Investment Policy (described below); and
- Employees should not take inappropriate advantage of their position at the Firm.

Employees are not permitted to maintain personal brokerage accounts for the purpose of trading “**Reportable Securities**” (as defined in the Code of Ethics, and which includes a wide variety of investment types) except for the purpose of holding or liquidating any such holdings after the commencement of employment. Employees are permitted to liquidate positions held at the time of employment in Reportable Securities (a “**Liquidating Trade**”) subject to pre-clearance by the CCO. Employees are prohibited from participating in Initial Public Offerings (“**IPOs**”). Employees are also prohibited from personally, or on behalf of a Client, purchasing or selling securities that appear on the Firm’s Restricted List.

Employees must obtain pre-approval from the CCO before: (i) engaging in any outside business activities; or (ii) making any private investments.

Avala will provide a copy of the Code of Ethics to its Investors, or any prospective investor, upon request.

### ***Certain Conflicts of Interest Related to Clients and Client Transactions***

This section discloses certain conflicts of interest with respect to Client transactions, however this does not purport to be a comprehensive list of all conflict disclosures.

### ***Investments by the Principal and Investment Manager-Related Investors in the applicable Funds and Other Accounts***

The “Principal,” together with members of her immediate family and any trust or other entity established for the benefit of any such person, directly or through the General Partner, has initially invested the majority of her liquid net worth in the applicable Funds. The Principal and any other member, partner, affiliate or employee of the General Partner or the Investment Manager, any member of the immediate family of any such person, and any trust or other entity established for the benefit of any such person that invests directly or indirectly in the applicable Funds (the “**Investment Manager-Related Investors**”) may be in possession of information relating to the Funds that is not available to other Investors and prospective investors. The Principal and other Investment Manager-Related Investors are not required to keep any minimum investment in the applicable Funds and may invest in Other Accounts. It is expected that, if such investments are made, the size and nature of these investments will change over time without notice to the Investors. Investments by the Principal

and other Investment Manager-Related Investors in the applicable Funds and/or Other Accounts could incentivize the Principal and other Investment Manager-Related Investors to increase or decrease the risk profile of the Funds and/or any Other Accounts and take other actions that may adversely affect the Funds, including, for example, allocating time to the business of the Funds and the management of Other Accounts and businesses in a different manner than such time would be allocated absent such investments, or allocating trades and investment opportunities in a different manner than such trades or opportunities would be allocated absent such investments.

#### *Personal Investments by Investment Manager Employees Generally*

The Code of Ethics of the Investment Manager places restrictions on personal trades by employees of the Investment Manager and mandates that employees disclose their personal securities holdings and transactions to the Investment Manager on a periodic basis. The Code of Ethics also requires that employees pre-clear certain types of personal securities transactions. Generally, and subject to certain exceptions, employees of the Investment Manager may not engage in personal trading in single-name, publicly-traded stocks and bonds and may only dispose of any such securities held in their respective personal trading accounts subject to pre-clearance. Employees are not required, however, to obtain pre-clearance for personal investments in certain other asset classes and goods, including certain investments in residential real estate and mutual funds, whether or not the Funds have invested in the same or similar securities. In addition, the Investment Manager has the ability to permit certain employees, including the Principal, to maintain various personal investments that were acquired prior to their association with the Investment Manager, including investments in private issuers that may subsequently conduct public offerings of their securities, and may grant similar permissions in the future and/or permit personnel to sell such previously acquired securities.

The Investment Manager, its affiliates and its employees may give or take action for their own accounts that differs from advice given or action taken for the Funds. This activity generally, but not exclusively, would occur when an employee is liquidating positions in a personal account that were acquired prior to the employee's joining the Investment Manager – under those circumstances employees may sell securities that are held in the Funds' portfolio (and that the Investment Manager intends to cause the Funds to continue to hold). Such actions are subject to the policies and procedures of the Investment Manager, including the pre-clearance requirements under its Code of Ethics. Advice given or action taken for personal accounts may also conflict with or be adverse to advice given or action taken for the Funds. In certain circumstances, including but not limited to situations where the employee is liquidating a position in an illiquid or lightly-traded security, these activities have the potential to adversely affect the prices and availability of other securities held by or potentially considered for purchase by the Funds.

#### *Personal Investments by the Principal and the Principal Entities*

The Principal, individually, on behalf of members of her family, through or on behalf of trusts, partnerships, companies and other entities formed for her benefit and the benefit of members of her family, and/or through or on behalf of trusts, partnerships, foundations, companies and other entities which may from time to time include other philanthropic, charitable, civic, social or other organizations (collectively, along with the Principal, the Principal's family, and such trusts, partnerships and other entities, the "**Principal Entities**") may make, hold and dispose of investments outside of, and separate and apart from, her interests in the Funds. These investments by the Principal Entities include, but are not limited to, (i) direct investments in Financial Instruments in which the Funds have also invested (including, without limitation, where such investments were made by the Principal Entities prior to the Funds making such investments) or where the Principal Entities receive such investments as an in-kind distribution from pooled investment vehicles

managed by third parties and (ii) equity and other investments in pooled investment vehicles that are managed by third parties, and such vehicles may invest in Financial Instruments in which the Funds have also invested. In addition, such pooled investment vehicles could in the future invest in Interests of the applicable Funds or in Other Accounts (including co-investment vehicles), or otherwise co-invest along with the Funds. Managers of pooled investment vehicles may share investment ideas with personnel of the Investment Manager, and the Funds may, when the Investment Manager deems it to be in Funds' best interests, invest in Financial Instruments that are the subject of such discussions. The investments made by the Principal Entities generally will be investments that, at the time of investment, are opportunities that are determined by the Investment Manager to be inappropriate for investment by the Funds (for example, if such investments were originally considered for investment by the Funds and subsequently determined to be inappropriate for investment by the Funds (including due to the relatively small size of the investment opportunity), or in situations where the Funds have already invested in such Financial Instruments the amount the Investment Manager or its affiliates believe should be invested by the Funds).

Investment decisions made by the Principal Entities will be subject to various restrictions and all such activities are subject to pre-approval by the CCO.

#### *Allocations of Trades and Investment Opportunities*

The Investment Manager will act in a fair and equitable basis in allocating investment opportunities among Clients, to the extent practical and in accordance with the Funds' or Other Accounts' applicable investment strategies, over a period of time. Because of differences in Client investment objectives and strategies, risk tolerances, tax status, and other criteria, there may be differences among clients in invested positions and investment opportunities held.

#### *Co-Investments*

The Investment Manager and its affiliates may, from time to time, offer one or more Investors or investors in Other Accounts and/or other third-party investors the opportunity to co-invest with the Funds in particular investments. The Investment Manager and its affiliates are not obligated to arrange co-investment opportunities, and no Limited Partner will be obligated to participate in such an opportunity. The Investment Manager and its affiliates have sole discretion as to the amount (if any) of a co-investment opportunity that will be allocated to a particular Limited Partner and may allocate co-investment opportunities instead to investors in Other Accounts or to third parties.

The decision of the Investment Manager or its affiliates to offer (or not offer) co-investment opportunities to any Limited Partner will be made in the sole discretion of the Investment Manager or its affiliates, as applicable. If the Investment Manager determines, in its sole discretion, to offer any co-investment opportunity to a Limited Partner, the Investment Manager will provide the details of such opportunity at the time the offer is communicated to such Limited Partner. If the Investment Manager advises a committed co-investment vehicle in the future, such vehicle may be offered a co-investment opportunity before such opportunity is offered to any Limited Partner or other third-party investor, and no Limited Partner or other third-party investor will be entitled (or obligated) to participate in such an opportunity by reason of being an investor in the Fund.

If the Investment Manager or its affiliates determine that an investment opportunity is too large for the Funds, the Investment Manager and its affiliates may, but will not be obligated to, make proprietary investments therein. The Investment Manager or its affiliates may receive fees and/or allocations from co-investors, which may differ as among co-investors and also may differ from the fees and/or allocations borne by the Funds. Other terms and rights applicable to such co-investors

(including, without limitation, withdrawal rights, information rights and the terms related to the particular structure of any co-investment vehicle) may also differ from the terms and rights applicable to investors in the applicable Funds as well as among co-investors.

### *Cross Trades*

The Investment Manager may determine that it would be in the best interests of the Funds and one or more clients other than the Funds, including other investment funds, managed accounts, co-investment vehicles, proprietary accounts and other investment vehicles (collectively, “**Other Accounts**”, and together with the Funds, the “**Accounts**” and each, an “**Account**”) to transfer a financial instrument from one Account to another (each such transfer, a “**Cross Trade**”) for a variety of reasons, including tax purposes, liquidity purposes, to rebalance the portfolios of the Accounts, or to reduce transaction costs that may arise in an open market transaction. If the Investment Manager decides to engage in a Cross Trade, the Investment Manager will determine that the trade is in the best interests of both of the Accounts involved and take steps to ensure that the transaction is consistent with the Investment Manager’s duty to seek best execution for each of those Accounts. The Investment Manager generally intends to execute Cross Trades, if at all, with the assistance of a broker-dealer that executes and books the transaction at the close of the market on the day of the transaction. Alternatively, a cross transaction between two fund clients may occur as an “internal cross,” where the Investment Manager instructs the custodian for the Accounts to book the transaction at the price determined in accordance with the Valuation Policy. If the Investment Manager effects an internal cross, the Investment Manager will not receive any fee in connection with the completion of the transaction.

### *Principal Transactions*

To the extent that Cross Trades may be viewed as principal transactions (as such term is used under the Advisers Act) due to the ownership interest in an Account by the General Partner, the Investment Manager or its personnel, the General Partner and the Investment Manager will comply with the requirements of Section 206(3) of the Advisers Act. In connection with any principal transactions, Cross Trades, related-party transactions and other transactions and relationships involving potential conflicts of interest, the General Partner has established an advisory board (the “**Advisory Board**”), which may be asked to review and approve or disapprove, to the extent required by applicable law or deemed advisable by the General Partner, such transactions and conflicts of interest. The General Partner will not cause the Funds to enter into any transaction that would constitute a principal transaction (as such term is used under the Advisers Act), without (i) the consent of the Advisory Board or (ii) a majority-in-interest of the Investors in the applicable Fund(s). In no event will any principal transaction, Cross Trade, related-party transaction or other transaction or relationship involving conflicts of interest, be entered into unless it complies with applicable law. The member(s) of the Advisory Board may be exculpated and indemnified by the applicable Fund(s). Any decision of the Advisory Board will be binding on the Funds and their Investors.

## Item 12: Brokerage Practices

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Avala is authorized to determine the broker-dealer to be used for executing securities transaction for the Funds. In selecting broker-dealers to execute transactions, Avala does not need to solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It is not the Firm's practice to negotiate "execution only" commission rates; therefore, the Funds may be deemed to be paying for research, brokerage, or other services provided by the broker which are included in the commission rate.

Avala shall also have the authority to select and appoint custodians of the assets of the Funds. The Firm's authority is limited by its own internal policies and procedures and each Fund's investment guidelines.

### ***Best Execution***

In selecting an appropriate broker-dealer to effect a Client trade, Avala seeks to obtain "**Best Execution**," meaning generally the execution of a securities transaction for a Client in such a manner that a Client's total costs or proceeds in the transaction are most favorable under the circumstances. Accordingly, in seeking Best Execution, Avala takes into consideration the price of a security offered by the broker-dealer, as well as a broker-dealer's full range and quality of its services including, among other things, its facilities, reliability and financial responsibility, execution capability, commission rates, responsiveness, brokerage and research services provided (for example, research ideas, analysis, and investment strategies), special execution and block positioning capabilities, clearance, and settlement and custodial services.

### ***Soft Dollars***

The Firm uses "**Soft Dollars**." In such cases, Soft Dollar credits, generated by the Fund's trading activities, would be used to purchase brokerage and research services or products that would otherwise have been a Fund expense. Avala intends to keep any such arrangements within the parameters of the safe harbor of Section 28(e) of the Exchange Act.

Neither the Firm nor any related person receives Investor referrals from any broker-dealer or third party. However, subject to best execution, Avala may consider, among other things, capital introduction and marketing assistance with respect to Investors in the Funds in selecting or recommending broker-dealers for the Funds.

The provision by a broker of research and other services and property to Avala creates an incentive for the Firm to select such broker since it would not have to pay for such research and other services and property as opposed to solely seeking the most favorable execution for a Client. Any research, services or property provided by a broker may benefit any Client and such benefits may not be proportionate to commission dollars related to the provision of such research, services, or property.



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

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Avala performs various daily, weekly, monthly, quarterly, and periodic reviews of the transactions, positions, and investment levels of the Funds to ensure that they conform with the investment objectives and guidelines that are stated in the Funds' Offering Documents. In these reviews, the Firm pays particular attention to any changes in an investment's fundamentals, overall risk management, and changes in the markets that may affect price levels.

#### ***Account Reporting***

Avala performs various periodic reviews of each Client's portfolio. Such reviews are conducted by the Firm's officers and employees.

Investors receive reports in accordance with the terms of the Offering Documents, including, but not limited to, account statements and other performance information. In addition, annual audited financial statements are provided to all Investors generally within 120 days of each fiscal year end. Avala also provides information necessary for Investors to complete their respective U.S. federal and state income tax returns.

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

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Avala does not receive economic benefits from non-clients for providing investment advice and other advisory services. Neither Avala nor any of its related persons, directly or indirectly, compensate any person who is not a supervised person for client referrals. Avala has entered into “capital introduction” arrangements whereby prime brokers that have existing business relationships with Avala introduce Avala to prospective investors, however such introduction services are not specifically compensated, and such introductions are limited to prospective Fund investors.

## Item 15: Custody

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Avala is deemed to have custody of Client funds and securities because the Firm has the authority to obtain Client funds or securities, for example, by deducting advisory fees from a Client's account or otherwise withdrawing funds from a Client's account. Account statements related to the Clients are sent by qualified custodians to Avala.

Avala complies with Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended (the "**Advisers Act**") (i.e., the "custody rule") by meeting the conditions of the pooled vehicle annual audit approach and maintaining all Client funds and Financial Instruments with a qualified custodian, unless subject to an exception under applicable law or guidance. Upon completion of the relevant Fund's annual audit by an independent auditor that is registered with, and subject to inspection by, the Public Company Accounting Oversight Board (PCAOB), Avala will distribute each Fund's audited financials to Investors within 120 days of such Fund's fiscal year end.

**Item 16: Investment Discretion**

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Avala has full discretionary investment authority with respect to the Funds, including authority to make decisions with respect to which securities to be bought and sold, as well as the amount and price of those securities.

## Item 17: Voting Client Securities

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In compliance with Rule 206(4)-6 of the Advisers Act (i.e., the “proxy voting rule”), the Firm has adopted proxy voting policies and procedures. The general policy is to vote all proxy proposals, amendments, consents or resolutions (collectively, “**Proxies**”) in a prudent and diligent manner that will serve the applicable Client’s best interests and is in line with the Client’s investment objectives. In certain circumstances, Avala may abstain from voting securities where it deems such course of action appropriate, subject to its policies and procedures.

Avala has retained Institutional Shareholder Services, Inc. (“**ISS**”) as an expert in the proxy voting and corporate governance areas to assist in the due diligence process related to making appropriate proxy voting decisions related to all accounts. In addition, Avala utilizes ISS to facilitate the voting process and to provide recordkeeping with respect to how the Firm voted client proxies. Avala periodically conducts due diligence on ISS’ work to assess whether it is consistent with Avala’s policies and procedures and whether conflicts of interest are being addressed.

Avala may take into account all relevant factors in making a proxy voting determination, as determined by the Firm in its discretion, including, without limitation:

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

Generally, Clients may not direct Avala’s vote in a particular solicitation.

Clients may obtain a copy of Avala’s Proxy voting policies and Proxy voting record upon request.

**Item 18: Financial Information**

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Avala is not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonably likely to impair the Firm's ability to meet contractual commitments to Clients and has not been the subject of a bankruptcy petition at any time during the past ten years.