

# Entropy Technologies, LP

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This “**Brochure**” provides information about the qualifications and business practices of Entropy Technologies, LP (hereinafter “**Entropy**”, “**we**”, “**us**”, “**our**” or the “**Firm**”). If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer (“**CCO**”), Damir Durkovic, by email at [damir.durkovic@entropylp.com](mailto:damir.durkovic@entropylp.com). 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.

Entropy is a Registered Investment Advisor with the SEC. Registration as an investment adviser does not imply that Entropy or any of its principals or employees possesses a particular level of skill or training in the investment advisory business or any other business.

Additional information about Entropy 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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There are no material changes to report.

### Item 3: Table of Contents

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#### Item 4: Advisory Business

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Entropy Technologies, LP (hereinafter “**Entropy**”, the “**Adviser**”, “**we**”, “**us**”, “**our**” or the “**Firm**”) is organized as a Delaware limited partnership with a principal place of business in New York, New York. The Firm uses a proprietary technical trading system that utilizes mathematical models designed in an attempt to identify profitable trading opportunities in various global futures contracts, foreign exchange instruments and securities markets. Generally, Entropy provides investment advisory services to privately offered investment funds which invest in a combination of short- and medium-term quantitative trading strategies across global futures, foreign exchange and securities markets.

We serve as the Investment Adviser, with discretionary trading authority, to: private, pooled investment vehicles (each a “**Fund**” and collectively the “**Funds**”) and a separately managed account (the “**SMA**”).

Entropy will provide discretionary investment management services to qualified investors through its private investment funds:

- Entropy Offshore Fund, Ltd, a Cayman Islands exempted company (the “**Offshore Fund**”);
- Entropy Onshore Fund, LP a Delaware limited partnership (the “**Onshore Fund**”); and
- Entropy Master Fund, LP, a Cayman Islands exempted limited partnership (the “**Master Fund**”).

The Master Fund, the Onshore Fund and the Offshore 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 “**Limited Partners**” and the Offshore Fund’s “**Shareholders**” are hereafter collectively referred to as the “**Investors**” where appropriate.

Our 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**.” We do not modify our recommendations to our clients according to the particular interests of the underlying investors in the Feeder Funds, nor do we allow these investors to place restrictions on the trading we conduct for our clients.

In accordance with the terms of our investment management agreement with the SMA (the “**IMA**”), Entropy has discretionary trading authority for the SMA, subject to compliance with the investment guidelines, restrictions and other parameters set forth in the SMA IMA.

If Entropy manages additional SMAs in the future, such accounts will be subject to the investment objectives, guidelines and restrictions, fee arrangements and other terms individually negotiated with such Clients.

We do not currently participate in any Wrap Fee Programs.

As of July 31, 2023, the Firm has regulatory assets under management of \$974,685,564 which is managed on a discretionary basis.

## 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.

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

Entropy is authorized to incur and pay in the name and on behalf of the Funds all expenses which they deem necessary or advisable.

The Firm will initially employ an expense-based pass-through model and not charge a management fee or any other asset-based fee to the Fund.

The Firm is responsible for and shall pay, or cause to be paid, all of their own ordinary administrative and overhead expenses, including, without limitation, all costs and expenses related to rent, furniture, fixtures, equipment, office supplies, clerical expenses and all salaries, bonuses and benefits paid to, or on behalf of, personnel of the Firm.

The Funds bear all other expenses, which include, without limitation, the following expenses incurred by or allocable to the Funds: (i) the Fund's trading related expenses, such as brokerage commissions, financing, interest and borrowing fees and expenses, mark-ups, securities lending fees and expenses, exchange fees and clearing fees, all fees and expenses related to the trading of derivatives, all fees and expenses paid to prime brokers and other counterparties, the costs implicit in repurchase and reverse repurchase agreements and all other fees or expenses related to the Fund's trading and investment activities; (ii) all costs and expenses related to the organization of the Fund and the initial offering of the Shares ("Organizational Expenses"); (iii) fees and expense reimbursements payable to the Administrator, legal, accounting, administrative, auditing, tax preparation and other professional expenses (including the fees and expenses of the General Partner acting in its capacity as partnership representative of the Master Fund); (iv) the costs and expenses of any errors and omissions insurance, directors liability insurance (including in respect of the members of the Board of Directors) or cyber-security insurance obtained on behalf of the Fund and the Board of Directors; (v) any fees or expenses charged by proxy voting, class action recovery and monitoring or tax reclamation service providers; (vi) specific expenses incurred in obtaining or maintaining systems and other information utilized that facilitate valuations and accounting, including the costs of pricing services, service contracts for quotation equipment and related hardware and software; (vii) any taxes imposed on the Fund as determined by the Investment Manager in its sole discretion, filing fees and expenses, custodial fees and expenses and bank services fees; (viii) all costs and expenses associated with reporting and providing information to existing Shareholders and prospective investors; (ix) all expenses related to middle office and back office services relating to the Fund provided by the Administrator or another party or for communications with the Administrator and the Fund's counterparties (including hardware, software, communications and data), including service provider fees and expenses relating to the implementation of such systems and ongoing maintenance costs; (x) expenses of the continuous offering of Shares, including investor-related travel (which in the case of air travel will be limited to the cost of commercial airfare) and associated costs, the cost of updating, producing and distributing offering memoranda and other investor materials; (xi) expenses relating to any amendment to the Articles and/or the Investment Management Agreement, and the solicitation of any Shareholder consents; (xii) the Fund's allocated portion of any governmental, regulatory, licensing, filing or registration ("Filings") fees, including the legal and administrative costs and

expenses of preparing such Filings, incurred in compliance with the rules of any self-regulatory organization, any U.S. federal, state or local laws or any applicable foreign laws or regulations (including, without limitation, Section 13, Section 16 filings, FATCA (as defined below), Form PF and Form PQR and any similar ) and fees and expenses relating to anti-money laundering officers relating to the Fund; (xiii) regulatory and other expenses relating to the placement of Shares in specific jurisdictions; (xiv) all expenses incurred in connection with responding to requests or inquiries from any U.S. federal, state, local or non-U.S. governmental entity or authority, regulatory body or self-regulatory organization relating to the Fund's activities; (xv) all fees and expenses incurred in connection with the maintenance of the Fund's legal existence including all fees, costs, expenses, taxes or other governmental charges including without limitation with the Cayman Islands government and the Cayman Islands Monetary Authority ("CIMA"); (xvi) fees and expenses related to the Board of Directors (including any legal or indemnification expenses and any costs and expenses relating to the provision of board support services for meetings of the Board of Directors); (xvii) extraordinary expenses or costs that the Fund may incur (e.g., litigation expenses or damages) and any indemnification obligations it may owe the Investment Manager, its affiliates or other parties; (xviii) all expenses associated with the liquidation and winding-up of the Fund; (xix) any other similar expenses related to the operations of the Fund; and (xx) the Fund's *pro rata* share of such similar expenses as listed above of the Master Fund and any Trading Subsidiary.

In general, each Investor will bear its proportionate share of the Fund expenses on a *pro rata* basis with respect to the size of such Investor's capital account(s) or with respect to the relative net asset value of the shares held by such Investor, as applicable.

Notwithstanding the foregoing, the Fund General Partner and/or the Firm, as applicable, may specially allocate the expenses described herein in any other manner, including by allocating certain expenses to certain (but not all) Investors, if the Fund General Partner and/or the Firm, as applicable, reasonably determines, in its discretion, that it is more equitable to do so.

To the extent that expenses to be borne by the Funds are paid by the Firm or its affiliates, the Funds will reimburse the Firm or its affiliates for such expenses. We may waive any such reimbursement with respect to any Fund expenses. Any waiver by us for reimbursement of any Fund expenses shall not serve as a waiver of reimbursement for any future Fund expenses to be paid by us or our affiliates.

Neither the Firm nor its employees accept compensation, including sales charges or service fees, from any person for the sale of securities or other investment products.

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

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

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

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

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Our clients are the Funds and SMA, as described above.

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

### ***Investment Objective***

The investment objective will be to seek to deliver high risk-adjusted returns across global, liquid markets by combining multiple uncorrelated, hedged and leveraged systematic trading strategies with proprietary portfolio construction and execution techniques. These strategies may incorporate event-based, flow-based, fundamental and technical inputs and use both hypothesis-driven and machine learning-based approaches.

### ***Risk Management***

The risk management approach generally will seek to control exposures to both (i) common investment styles, industries and countries, and (ii) individual positions based on market value and liquidity. However, the Adviser may opportunistically take positions in the direction of any such risk factor if it believes doing so would be in the Fund's best interest.

### ***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 us. These risk factors include only those risks we believe to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by us.

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 we will achieve our 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.

### **General Risks**

***Potential Loss of Investment.*** As is true of any investment, there is a risk that an investment in the Fund will be lost entirely or in part. The Fund is not a complete investment

program and should represent no more than a portion of an investor's portfolio management strategy.

***There is No Operating History for the Fund, the Master Fund or the Investment Manager.*** There is no operating history by which to evaluate the likely future performance of each of the Fund, the Master Fund or the Investment Manager. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE SUCCESS.

***Possible Positive Correlation with Stocks and Bonds.*** One of the goals in incorporating a non-traditional investment such as the Fund into a portfolio is to provide a potentially valuable element of diversification. However, there can be no assurance, particularly during periods of market disruption and stress when the risk control benefits of diversification may be most important, that the Fund will, in fact, experience a low level of correlation with a traditional portfolio of stocks and bonds.

***Financing Arrangements; Availability of Credit.*** The Fund's use of substantial leverage will depend on the availability of credit in order to finance its portfolio. There can be no assurance that the Fund will be able to maintain adequate financing arrangements under all market circumstances. As a general matter, the banks and dealers that provide financing to the Fund can apply essentially discretionary margin, haircut, financing, security and collateral valuation policies. Changes by banks and dealers in such policies, or the imposition of other credit limitations or restrictions, whether due to market circumstances or governmental, regulatory or judicial action, may result in margin calls, loss of financing, forced liquidation of positions at disadvantageous prices, termination of swap and repurchase agreements and cross defaults to agreements with other dealers. Any such adverse effects may be exacerbated in the event that such limitations or restrictions are imposed suddenly and/or by multiple market participants at or about the same time. The imposition of such limitations or restrictions could compel the Fund to liquidate all or part of its portfolio at disadvantageous prices. The financing available to the Fund from banks, dealers and other counterparties is likely to be restricted in disrupted markets as set forth below under "Market Risks—Market Disruptions and Governmental Intervention."

***Competition.*** The Fund will compete with numerous other private investment funds, asset managers and financial institutions (both diversified and specialized funds), as well as other investors, many of which have substantially greater resources than the Fund. Competition from other market participants may impede the Fund's ability to raise and maintain sufficient assets necessary to finance its operations, achieve certain diversification targets or evolve its investment program.

***Devotion of Time.*** The Investment Manager may perform management services for other client accounts and may devote substantial time and resources to doing so. While the employees of the Investment Manager are subject to customary non-competition restrictions and policies governing personal trading, the Fund's documents do not impose any formal restrictions on the ability of the Principals and employees of the Investment Manager from being involved in other business ventures besides the Fund or the Investment Manager. See "Conflicts of Interest—General Conflicts" below.

***Non-Disclosure of Positions.*** In an effort to protect the confidentiality of its positions and its strategies, the Investment Manager generally will not disclose the Fund's positions to Shareholders on an ongoing basis. The Investment Manager, in its sole discretion, may from time to time permit such disclosure to certain Shareholders. See also the risk factor "Differentiated Information" below.



***Increasing Assets Managed by the Investment Manager May Adversely Affect Performance.*** The rates of return achieved by investment advisers or managers often diminish as the equity under their management increases. The terms of the Fund and the Onshore Feeder Fund do not restrict the amount of capital that may be invested or the ability of the Investment Manager to manage other vehicles or accounts with similar or different strategies.

***Evolving and New Investment Approaches.*** The Investment Manager's investment approach, trading techniques, models and algorithms are expected to evolve. Such changes may come as a result of changing market dynamics or as a result of the Investment Manager's ongoing research and development process. The Investment Manager may take an opportunistic approach to applying such new investment and trading processes to the Fund's investment program. Such changes may lead to the Fund implementing strategies that involve different asset classes, geographies, exposure targets, or underlying investment theses. During a "ramp-up period" of a new strategy, in order to avoid impact on the relevant markets, the Fund may not be fully invested, which may result in a reduction in expected investment returns for the duration of this period.

The Investment Manager may have limited experience in applying any new techniques, strategies, models, and approaches developed by the Investment Manager and such new techniques, strategies, models, and approaches may not be successful and may therefore lead to losses. Such new investment approaches may be subject to certain risk factors not described in this Memorandum. In addition, the time and resources devoted to the implementation of new techniques, strategies, models and approaches may diminish the effectiveness of the Investment Manager's implementation of the Investment Manager's established techniques, strategies, models and approaches. No notice will be required to be given to investors when the Investment Manager implements changes to the Fund's investment program.

***Potential Inability to Trade, Report or Manage Risk Due to Systems Failure.*** The strategies implemented on behalf of the Fund will be dependent to a significant degree on the proper functioning of the Investment Manager's internal and external computer, communication and information technology systems. Accordingly, systems failures, whether due to third-party failures upon which such systems are dependent or the failure of the Investment Manager's or a third-party's hardware or software, could disrupt trading or make trading impossible until such failure is remedied. Any such failure, and consequential inability to trade or manage risk (even for a short time), could, in certain market conditions, cause the Fund to experience significant trading losses, to miss opportunities for profitable trading or to become exposed to particular risk exposures. Any such systems failures also could cause delays in generating reports for investors.

***Execution of Orders.*** The Fund's investment strategy will depend on its ability to establish and maintain an overall market position in a combination of financial instruments selected by the Investment Manager's models and algorithms. The Fund's investment orders may not be executed in a timely and efficient manner due to various circumstances, including (without limitation), systems failures or human error attributable to the Fund's brokers, agents or other service providers. In such event, the Fund might not be able to acquire any or only be able to acquire some, but not all, of the components of such position, or if the overall position were to need adjustment, the Fund might not be able to make such adjustment. As a result, the Fund would not be able to achieve the desired market position and might incur a loss in liquidating its position or miss opportunities.

**Operating Expenses.** The Fund will be subject to significant operating expenses. Unlike most private investment funds that pay a management fee based on a fixed percentage of assets under management, the Fund will initially be subject to an expense-based model where the Investment Manager and the General Partner pass through certain of their Pass-Through Expenses to the Fund (to be borne by the Series A Shares). Such Pass-Through Expenses may be substantial over time. The timing of accruals or charges with respect to certain Pass Through Expenses and/or Fund Expenses may affect the Net Asset Value of different Shareholders differently based on the timing of each such Shareholder's investment in, or redemption from, the Fund and may in the future result in the Fund's Net Asset Value diverging from the net asset value of the Fund as it would be calculated and reported in accordance with U.S. GAAP.

The Fund may prepay the Investment Manager for certain estimated Pass-Through Expenses allocated to the Fund to be paid by the Investment Manager. Accrued Pass Through Expenses may reduce the amount of proceeds payable to a Shareholder upon its redemption from the Fund (even if such expenses are subsequently reversed, such reversals inuring to the benefit of all current investors). The Fund will also be responsible for all Fund Expenses incurred in connection with or otherwise related to the Fund's investment program, its operations and its organization and the initial offering of Shares. Applicable Pass-Through Expenses and Fund Expenses must be offset by the Fund's investment gains for the Fund to be profitable.

The Investment Manager is a newly established business which is highly dependent on its assets under management to finance its operations. Even if the Fund's strategy is successful (of which there can be no assurance), the Investment Manager may not continue to be a viable business, resulting in the premature liquidation of the Fund before it has had a realistic opportunity to achieve its objectives and perhaps under unfavourable market conditions.

**Trade Errors.** The Fund will bear the cost of any trade errors of the Investment Manager with respect to its placing or executing trades for the Fund, as such errors are considered by the Investment Manager to be a cost of doing business. Because trade orders are typically placed through automated systems, there is a heightened risk of human error occurring in connection with any trades that are placed manually. Pursuant to the exculpation of liability and indemnification provisions of the Investment Management Agreement, the Investment Manager will only be obligated to reimburse the Fund for any trade error resulting from the Investment Manager's fraud, wilful misconduct or gross negligence. The Investment Manager, subject to its fiduciary obligations, will determine whether or not any loss resulting from a trade error is required to be reimbursed in accordance with such liability and exculpation provisions. Although the Investment Manager has adopted policies and procedures to mitigate conflicts associated with trade errors, in making such a determination, the Investment Manager will necessarily be faced with a conflict of interest. If the Investment Manager holds insufficient cash available to reimburse the Fund for a trade error in an instance in which such reimbursement is required, such reimbursement may be charged against future allocations of the Performance Allocation. Any positive trade errors will be for the benefit of the Fund.

Errors in models, data and software (each, an "Implementation Incident") will not constitute trade errors pursuant to the Investment Manager's policies. The Fund will bear the risks associated with the reliance on models, data and software including bearing all losses related to Implementation Incidents other than in relation to losses arising from the Investment Manager's fraud, wilful misconduct or gross negligence.

***Disruption of Business.*** Although the Investment Manager intends to establish a disaster recovery plan, there can be no assurance that interruptions caused by extraordinary events outside of the control of the Investment Manager, including acts of God (e.g., fire, flood, earthquake, storm, hurricane, other natural disaster, pandemics or epidemics), acts of war (e.g., war, threatened or actual invasion, acts of foreign enemies, hostilities, insurrection, or terrorist activities, whether war is declared or not) and financial system disruptions (e.g., bankruptcy filing or operational failure by a major financial institution, including a bank, broker-dealer, clearing agent, administrator, investment manager or securities or derivatives exchange), would not have an adverse effect on the Fund or its investment program. Such disruptions could result in adverse effects on the Fund's operations, the value of its investments and the ability of the Fund to trade its portfolio.

***Cybersecurity Breaches.*** The Fund, like all businesses dependent on information technology systems, is subject to risks associated with a breach in its cybersecurity. Cybersecurity is a generic term used to describe the technology, processes and practices designed to protect networks, systems, computers, programs and data from "hacking" by other computer users, other unauthorized access and the resulting damage and disruption of hardware and software systems, loss or corruption of data, as well as misappropriation of confidential information. If a cybersecurity breach occurs, the Fund may incur substantial costs (on behalf of itself or the Investment Manager), including those associated with: forensic analysis of the origin and scope of the breach, increased and upgraded cybersecurity, investment losses from sabotaged trading systems, identity theft, unauthorized use of proprietary information, litigation, adverse investor reaction, the dissemination of confidential and proprietary information, and reputational damage. Any such breach could expose the Investment Manager and the Fund to civil liability, as well as regulatory inquiry and/or action. Any such breach could also cause substantial redemptions from the Fund. In addition, Shareholders could be exposed to further losses as a result of unauthorized use of their personal information.

***Capacity Constraints.*** The Fund may be capacity constrained, meaning that performance may degrade if assets under management become too large. As a result, the Investment Manager may seek to reduce the amount of capital invested in the Fund in order to create a portfolio size that it considers optimal to trade, including by way of mandatory redemptions. In addition, the Fund Anchor Investor (with respect to the Fund and the Other Feeder Funds) and the SMA Anchor Investor (with respect to its separately managed account) have certain capacity rights, which may limit the amount of capital that the Fund may be able to accept from other investors.

## **Market Risks**

***Market Risks in General.*** The Fund's strategies will always be subject to some dimension of market risk, including, but not limited to directional price movements, deviations from historical pricing relationships, changes in the regulatory environment, changes in market volatility, changes in credit spreads, equity prices, commodity prices, foreign exchange rates, "flights to quality" and "credit squeezes." Price movements are influenced by many unpredictable factors, such as market sentiment, momentum, inflation rates, interest rate movements and general economic and political conditions both inside and outside the markets where the Fund will invest. The Fund's style of alternative investing (including the use of relative value investing) may be no less speculative than traditional investing strategies. On the contrary, alternative investment strategies have from time to time incurred sudden and dramatic losses.

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

**Volatility.** The prices of certain instruments that will be traded by the Fund have been subject to periods of excessive volatility recently and in the past, and such periods can be expected to continue or recur. Certain instruments the Fund will trade in the future also are likely to be subject to periods of volatility. While volatility can create profit opportunities for the Fund, it can also create the specific risk that historical or theoretical pricing relationships will be disrupted and may cause what should otherwise be comparatively low risk positions to incur losses. Price movements are influenced by many unpredictable factors, such as market sentiment, inflation rates, interest rate movements and general economic and political conditions. In addition, the evolution of information technology, social media and brokerages can alter the values of, and relationships between, securities, thereby affecting the volatility and profitability of some trading strategies. For example, the expanded influence of social media platforms on the market, combined with access to costless retail brokerage, has exacerbated the volatility of particular issuers in certain instances.

**Availability of Investment Opportunities.** There can be no assurance that the Investment Manager will be able to find suitable opportunities consistent with its investment approach. Market conditions may limit the availability of investment opportunities, reduce the Fund's deployment of capital and negatively impact the Fund's returns.

**Market Disruptions and Governmental Intervention.** The global financial markets have in the past several years gone through disruptions that have led to extensive governmental intervention. Such intervention was in certain cases implemented on an "emergency" basis, suddenly and substantially eliminating market participants' ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition—as one would expect given the complexities of the financial markets and the speed with which governments have felt compelled to act—these interventions have been unclear in scope and application and have resulted in confusion and uncertainty which in itself has been detrimental to some markets as well as previously successful investment strategies.

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

**Effect of Speculative Position Limits.** The CFTC and U.S. futures exchanges ("Exchanges") impose limits referred to as "speculative position limits" on the maximum net long or net short speculative positions that any person may hold or control in any particular futures or options contract traded on the Exchanges. The CFTC also recently adopted position limits on certain physical commodity swaps. Those position limits will go into effect in 2023. The Fund could be required to liquidate futures or swap positions or may not be able to fully implement its trading strategies in order to comply with position limits.

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

MiFID II imposes certain restrictions as to the trading of shares and derivatives, which could apply to transactions made by or with the Fund. Subject to certain conditions and exceptions, the Fund may be unable to trade shares or derivatives with or through affected EU regulated firms (e.g., EU broker-dealers) other than as provided by MiFID II. MiFID II also applies position limits to the size of a net position that a person can hold at all times in commodity derivatives traded on EU trading venues and in “economically equivalent” “over the counter” (“OTC”) derivatives.

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

The United Kingdom (“UK”) has equivalent rules to those in MiFID II. Accordingly, although the Fund is not organized in the UK, and is not authorized or regulated by the UK Financial Conduct Authority, similar consequences to those discussed above would arise when trading with or through UK regulated firms and/or holding positions in commodity derivatives traded on UK trading venues and in economically equivalent OTC derivatives.

**European Market Infrastructure Regulation.** The European Market Infrastructure Regulation (Regulation (EU) No 648/2012) (“EMIR”) introduced certain requirements in respect of derivative contracts, which apply primarily to “financial counterparties” (“FCs”) such as EU authorized investment firms and alternative investment funds as well as non-EU alternative investment funds which are managed by AIFMs authorized under the EU Alternative Investment Fund Managers Directive (Directive 2011/61/EU) (the “AIFMD”). EMIR also applies to “non-financial counterparties” (“NFCs”) which are entities established in the EU which are not FCs. NFCs whose transactions in OTC derivative contracts exceed EMIR’s prescribed clearing thresholds (“NFC+s”) are generally subject to more stringent requirements under EMIR than NFCs whose transactions in OTC derivative contracts do not exceed such clearing thresholds (“NFC-s”). Additionally, amendments made to EMIR in 2019 introduced relief from central clearing requirements for those FCs which do not exceed prescribed clearing thresholds (“FC-s”).

Broadly, EMIR’s requirements which apply to derivative users in respect of derivative contracts include: (i) mandatory clearing of OTC derivative contracts declared subject to the clearing obligation; (ii) risk mitigation techniques in respect of uncleared OTC derivative contracts, including the bilateral exchange of collateral; and (iii) reporting and record-keeping requirements in respect of all derivative contracts.

As the Fund is established outside the EU and is not managed by an AIFM authorized under AIFMD, the Fund is not directly subject to the requirements of EMIR; however, where the Fund transacts with in-scope EU counterparties, such counterparties may be required to

apply certain provisions of EMIR so that the EU counterparty can fulfil its regulatory obligations and ensure that the transaction is EMIR-compliant.

The EU regulatory framework and legal regime relating to derivatives is set out not only by EMIR but also by MiFID II. In particular, MiFID II requires transactions between FC+s and NFC+s in certain sufficiently liquid OTC derivatives to be executed on a trading venue which meets the requirements of the MiFID II regime (the “DTO”). This trading obligation will also extend to FC+s and NFC+s which trade with third country counterparties that would be classed as FC+s or NFC+s if they were established in the EU.

Prospective investors should be aware that the costs of complying with the requirements of EMIR and MiFID II could significantly raise the costs of entering into derivative contracts and that EMIR may adversely affect the Fund’s ability to engage in certain transactions in derivatives.

The UK has equivalent rules to those in EMIR (“UK EMIR”) because EMIR has been retained as UK law by the European Union (Withdrawal) Act 2018 and also UK rules equivalent to that of the DTO under MiFID II (“UK DTO”). As the Fund is established outside the UK and is not managed by a UK AIFM (as defined in the UK Financial Conduct Authority Handbook), the Fund is not directly subject to the requirements of UK EMIR or the UK DTO. However, where the Fund transacts with in-scope UK counterparties, such counterparties may be required to apply certain provisions of UK EMIR so that the UK counterparty can fulfil its regulatory obligations under UK EMIR and the UK DTO. As a result, the Fund may be subject to additional contractual obligations and/or costs that may not otherwise have applied.

***Additional Government or Market Regulation.*** Market disruptions and the dramatic increase in the capital allocated to alternative investment strategies during the past decade have led to increased governmental, as well as self-regulatory, scrutiny of the “hedge fund” industry and the financial services industry in general. Legislation and rule changes proposing greater regulation of the industry, such recent proposals by the SEC relating to advisers of private funds, are considered periodically by U.S. federal and state legislatures and regulatory authorities, as well as the governing bodies of non-U.S. jurisdictions. It is impossible to predict what, if any, changes in the regulations applicable to the Fund, the Investment Manager, the markets in which they trade and invest or the counterparties with which they do business may be instituted in the future. Any such laws or regulations could have a material adverse impact on the profit potential of the Fund, as well as require increased transparency as to the identity of the Shareholders.

***Sanctions Risks.*** Like all investors, the Fund is subject to laws that restrict it from dealing with entities, individuals, organizations and/or in investments which are subject to applicable sanctions regimes. Such sanctions regimes may be broad in their application and the interpretation of the application of such regimes may require a substantial degree of subjective judgment, forcing the Fund to either cease certain trading activities or risk violating a sanctions regime. If an investment made by the Fund subsequently becomes subject to applicable sanctions, the Fund may be required to divest from such investment or otherwise cease any further dealings in that investment until the applicable sanctions are lifted or a license is obtained under applicable law to continue such dealings. Any such sanctions could have an adverse effect on the value or liquidity of such investments, and positions held by the Fund that are subject to sanctions are likely to experience losses due to the restrictions on liquidation. In certain cases, the imposition of sanctions may require the Fund to liquidate investments at disadvantageous prices.

***Risk of Natural Disasters, Epidemics, Pandemics and Terrorist Attacks.*** Countries and regions in which the Fund invests, where the Investment Manager has offices or where the Fund or the Investment Manager otherwise do business are susceptible to natural disasters (e.g., fire, flood, earthquake, storm and hurricane) and epidemics, pandemics (e.g., COVID-19) or other outbreaks of serious contagious diseases. The occurrence of a natural disaster, epidemic or pandemic could adversely affect and severely disrupt the business operations, economies and financial markets of many countries (even beyond the site of the natural disaster or epidemic) and could adversely affect the Fund's investment programs or the Investment Manager's ability to do business. The impact of infectious diseases on the health of the Investment Manager's employees could materially disrupt the Investment Manager's business activities and negatively affect the Investment Manager's ability to effectively monitor and manage the Fund's portfolio and operate the Fund in general. Infectious diseases or other public health crises can result in volatility in financial markets, which may disrupt historical pricing relationships or trends that the Investment Manager's strategies and models are based on, resulting in substantial and sudden losses to the Fund. This risk of loss can be compounded by the fact that in disrupted markets positions may become illiquid and financing might become unavailable. Volatility may also make it more difficult or costly to rebalance portfolios or keep them within investment guidelines or targets.

In addition, terrorist attacks, or the fear of or the precautions taken in anticipation of such attacks, could, directly or indirectly, materially and adversely affect certain industries in which the Fund invests or could affect the countries and regions in which the Fund invests, where the Investment Manager has offices or where the Fund or the Investment Manager otherwise do business. Other acts of war (e.g., war, actual or threatened invasion, acts of foreign enemies, hostilities and insurrection, regardless of whether war is declared) could also have a material adverse impact on the financial condition of industries or countries in which the Fund invests.

***Institutional and Counterparty Risk.*** Institutions, such as brokerage firms, banks and broker-dealers, generally have custody of the funds, securities or instruments constituting the Fund's assets and may hold such assets in "street name." Bankruptcy, financial strain, fraud, negligence or error at one of these institutions could impair the operational capabilities or the capital position of the Fund.

Markets in which the Investment Manager is permitted to effect derivative transactions (e.g., total return swaps) include financing, OTC or "interdealer" markets, as well as unregulated private markets. Some participants in such markets are not subject to the same level of credit evaluation and regulatory oversight as are members of the exchange-based markets. The Fund will be exposed to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the transaction (whether or not such dispute is bona fide) or because of a credit or liquidity problem, thus causing the Fund to suffer a loss. Such counterparty risk is accentuated where the Fund has concentrated its transactions with a single or small group of counterparties.

There also is the risk that major institutional investors in the Fund may be compelled to redeem or that the Fund's counterparties or brokers will be required to restrict the amount of credit previously granted to the Fund due to their own financial difficulties, resulting in forced liquidation of substantial portions of the Fund's portfolio.

The events of the financial crisis of 2008 surrounding bankruptcies or similar proceedings with respect to various parties have demonstrated the risk that assets which an investor believed were custodial under statutory and regulatory protections, may not be

clearly identified as being assets of the investor, causing the investor to be exposed to a credit risk with regard to such parties. The Fund will be exposed to similar risks.

The Investment Manager will not be restricted from dealing with any particular counterparty or from concentrating any or all of the Fund's transactions with one counterparty. The ability of the Investment Manager to transact business with any one or number of counterparties, uncertainty regarding such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Fund. Further, such financial contracts and other bilateral contracts could lose value, be terminated or the Fund could be treated as an unsecured creditor in claims of bankruptcy. The Fund may not be able to ascertain its position in these contracts, making it difficult to either replace such contracts (in a strategy) or hedge them.

**Liquidity Risks.** Some of the markets in which the Fund may invest have and may in the future experience periods of illiquidity. Lack of liquidity can make it difficult or impossible for the Fund to purchase or sell instruments or other assets at desired prices or in desired quantities, as a result of which, among other things, it may be economically unfeasible for the Fund to recognize profits on open positions or to close out open positions against which the market is moving. In particular, sales of instruments subject to illiquidity may be possible only at a substantial discount. In addition, such instruments may be difficult to value, and illiquidity can disconnect market values from the historical pricing indicators used in the Fund's investment analysis, as the fewer transactions that take place the greater the risk of market values not reflecting true pricing relationships or fair value.

#### **Risks Relating to the Fund's Investment Techniques**

**Algorithmic Strategies and Trading.** Quantitative strategies and execution techniques cannot fully match the complexity of the financial markets and therefore sudden unanticipated changes in underlying market conditions can significantly impact their performance. Further, as market dynamics shift over time, previously highly successful strategies and execution techniques may become outdated, perhaps without the Investment Manager recognizing that fact before substantial losses are incurred. Even without becoming completely outdated, the effectiveness of the models employed may decay in an unpredictable fashion for any number of reasons including, but not limited to, an increase in the amount of assets managed, the use of similar strategies and execution techniques by other market participants and/or market dynamic shifts over time. Moreover, based on recent trends, there are likely to continue to be an increasing number of market participants who rely on strategies and execution techniques that may be similar to those used by the Investment Manager, which may result in a substantial number of market participants taking the same action with respect to an investment and some of these market participants may be substantially larger than the Fund. Should one or more of these other market participants begin to divest themselves of one or more positions, a "crisis correlation," independent of any fundamentals, could occur, thereby causing the Fund to suffer material, or even total, losses. Although the Investment Manager may generally attempt to deploy relative value or market neutral strategies, this does not mean that the Fund will not be affected by adverse market conditions similar to those described above and/or others. There can be no assurances that the models implemented will be profitable, and various market conditions may be materially less favourable to certain strategies than others.

Algorithmic trading creates risks related to execution errors. The controls imposed by the Fund or by the Investment Manager utilizing algorithmic trading, or the controls imposed by third-party service providers engaged by the Fund, may fail or may not be effective in



catching and/or preventing incorrect trades from reaching the markets. The Investment Manager will seek to develop mechanisms to mitigate the potential risk of an execution error caused by the use of algorithmic, systematic execution modalities but such efforts do not remove the risk of such an error occurring. The Fund bears the risks associated with the reliance on proprietary and third-party algorithmic execution modalities including bearing all losses related to errors other than in relation to losses arising from the Investment Manager's fraud, wilful misconduct or gross negligence.

***Model, Programming and Data Risk.*** The investment models and strategies and risk management tools that the Investments Manager employs are highly dependent on quantitative pricing theories and valuation techniques. These models generally seek to forecast future price changes based upon a number of factors and inputs. The forecasts generated by these models may differ substantially from actual future price realizations, resulting in losses. The research and modelling process engaged in by the Investment Manager is extremely complex and involves financial, economic, econometric and statistical theories, research and modelling; the results of that process must then be translated into computer code. There can be no assurance that the models used by the Investment Manager on behalf of the Fund will be effective or that they will be effectively utilized by the Investment Manager. Moreover, there can be no assurance that the Investment Manager will be able to continue to develop, maintain and update the models so as to effectively implement the Fund's strategy.

Certain models are highly reliant on the gathering and cleaning of large amounts of data, as such models are heavily reliant on correct data inputs. If incorrect data is entered into a substantiated model, the resulting valuations will be incorrect. However, even if data is inputted correctly, "model prices" will often differ substantially from market prices, especially for instruments with complex characteristics, such as derivative products. When models and/or data inputs prove to be incorrect, misleading or incomplete, any decisions made in reliance thereon expose the Fund to potential risks. For example, reliance on models and/or data may result in buying certain investments at prices that are too high, selling certain other investments at prices that are too low, or missing favourable opportunities altogether. Similarly, any hedging based on faulty models and/or data inputs may prove to be unsuccessful.

Although the Investment Manager will seek to retain individuals skilled in the development and operation of necessary functions in the development of models, data and software, the complexity of the individual tasks, the difficulty of integrating such tasks, and the limited ability to perform "real world" testing of the end product raises the chances that the finished model may contain an error; one or more of such errors could adversely affect the Fund's performance.

Implementation Incidents are often extremely difficult to detect, and, in the case of models, the difficulty of detecting Implementation Incidents may be exacerbated by the lack of design documents or specifications. Regardless of how easy their detection appears in retrospect; some Implementation Incidents may go undetected for long periods of time, and some may never be detected. Finally, the Investment Manager will detect certain Implementation Incidents that the Investment Manager chooses, in its sole discretion, not to address or fix, and third-party software may lead to Implementation Incidents known to the Investment Manager that it chooses, in its sole discretion, not to address or fix. The degradation or impact on performance caused by these Implementation Incidents can compound over time. The Investment Manager generally will not perform a materiality analysis on the potential impact of an Implementation Incident. The Investment Manager

believes that the testing and monitoring performed on models will enable the Investment Manager to identify and address those Implementation Incidents that a prudent person managing a quantitative, systematic investment process would identify and address by correcting the underlying issue(s) giving rise to an Implementation Incident; however, there can be no guarantee of the success of such processes.

The Investment Manager will employ quantitative strategies and expects to continuously modify, enhance and develop models as it deems appropriate. The creation of models (including incremental improvements to current models) may expose the Fund to the possibility of unforeseen losses from a variety of factors, including conceptual failures and implementation failures. The Investment Manager considers any such implementation failures, such as Implementation Incidents, to be an intrinsic aspect of the Investment Manager's trading, risk management and execution techniques, which are sophisticated and highly dependent on technology. Therefore, such failures are considered by the Investment Manager to be a basic cost of the creation and deployment of such strategies and as such will be borne to the Fund. The Investment Manager does not expect to disclose discovered Implementation Incidents to its investors and Implementation Incidents will not constitute trade errors pursuant to the Investment Manager's policies. Furthermore, the Fund will bear the risks associated with the reliance on models, data and software including bearing all losses related to Implementation Incidents other than in relation to losses arising from the Investment Manager's fraud, wilful misconduct or gross negligence.

**Obsolescence Risk.** If the assumptions underlying the Investment Manager's models are inaccurate or become inaccurate, or are unrealistic or become unrealistic, and are not promptly adjusted, the Fund may incur losses or may underperform. If the Investment Manager's models do not reflect certain factors, and such omission is not addressed through testing, evaluation and modification of such models, the Fund may be subject to losses. The Investment Manager will continue to test, evaluate and add new models which may also result in the modification of existing models from time to time. Investors will not be informed of, nor will investors approve the addition, modification or removal of models and investment strategies. There can be no assurance as to the effects (positive or negative) of any changes including additions, modifications and/or removals of models or investment strategies on the Fund's performance.

**Crowding/Convergence.** There is significant competition among systematic and quantitatively focused managers, and the ability of the Investment Manager to implement successfully such strategies is dependent on the Investment Manager's ability to employ models that are simultaneously profitable and differentiated from those employed by other managers. If the Investment Manager is not able to develop sufficiently differentiated models, the Fund's investment objective may not be met.

In addition, to the extent that the Investment Manager's models come to resemble those employed by other managers, the risk that a market disruption that negatively affects predictive models will adversely affect the Fund is increased, as such a disruption could accelerate reductions in liquidity or rapid repricing due to simultaneous trading across a number of funds in the marketplace.

**Reliance on Technology.** The Investment Manager's investment processes, including research, production trading, risk management, and trade aggregation and allocation, are highly automated and will rely heavily on technology, including proprietary and third-party hardware and software. The Investment Manager will use computer systems in substantially all phases of its operations, including research, valuation, trade identification and

construction, trade execution, clearing, risk management, back-office functions and reporting. The Investment Manager believes that technology is critical to its success, and any failure on the part of the Investment Manager to anticipate or respond adequately to applicable technological advancements could consequently have a material adverse effect on the Fund. In addition, the performance of the Fund, as well as various critical processes of the Fund, could be severely compromised by Implementation Incidents, computer viruses, telecommunications failures, natural disasters, security breaches, software related “system crashes”, disruption or deterioration of services of third-party providers, terrorist attacks and similar events. Such events might even cause computerized trading programs to generate orders or to execute trades many times the magnitude of, as well in the opposite market direction to, the transactions which were intended. Any event that interrupts the Investment Manager’s computer and telecommunications operations could result in, among other things, the inability of the Investment Manager to establish, modify, liquidate, hedge or monitor the Fund’s investments and therefore could have a material adverse effect on the operating results of the Fund.

The Fund could also be negatively impacted by power outages, hardware failures, disk failures and other similar circumstances, some of which are within the Investment Manager’s control to prevent, and others of which are not. While Investment Manager will seek to establish business continuity procedures and expects to regularly monitor its trading technology, its procedures and monitoring may not be as robust as they could be, and unexpected failures have been known to occur. In the case of severe business disruptions, the Investment Manager may not be able to resume its activities for multiple hours or longer, depending on the severity of the outage and the systems impacted. Because the Investment Manager’s investment strategies generally trade on a frequent basis (as opposed to holding positions for long periods of time), failures in the trading or other systems, even for a short period of time, could have significant adverse effects on the performance of the Fund.

While Investment Manager will take reasonable precautions to secure its technology infrastructure, there can be no assurance that security will not be breached. In such event, some of the Investment Manager’s critical data and systems could become corrupted, which could cause the loss of trading connectivity or trading in unintended ways.

**Statistical Measurement Error.** Many of the strategies employed by the Investment Manager rely on patterns inferred from the historical series of prices and other data. Even if all of the assumptions underlying the strategies were met exactly, the strategies can only make a prediction, not afford certainty. There can be no assurance that the future performance will match any predictions under which a trading model is based upon. Further, most statistical procedures cannot fully match the complexity of the financial markets and as such, results of their application are uncertain. In addition, changes in underlying market conditions and/or market practices can adversely affect the performance of a statistical strategy and could require changes to such strategy or the development of new strategies.

**Frequent Trading.** The Fund will trade frequently. Consequently, it will bear significant brokerage, clearing and trading fees. In addition, new financial transaction taxes and higher exchange fees (for placing and/or cancelling orders) have been proposed. Even *de minimis* taxes or a small increase in exchange fees could have a negative impact on the returns of the Fund.

**Human Error.** While the Fund’s trading strategies will utilize models and automated processes, the activities and decisions of the Investment Manager’s personnel will play a vital role in the Fund’s investment approach. The Investment Manager’s personnel will make

subjective decisions in designing, implementing, monitoring and executing trading strategies, including determinations in connection with developing and making changes to models (e.g., the timing of implementation, the level of testing required and the setting of various parameters or other settings), implementing risk limits, monitoring the Fund's trading and infrastructure, and trading orders manually. Subjective decisions by individuals could prove to be wrong, which could result in losses. For example, a decision to increase a risk limit or not to turn off trading in response to an automated alert could cause a strategy to trade more than intended.

***Disclosure of Intellectual Property and Confidential Information.*** The intellectual property and confidential information developed by the Investment Manager for trading activities could be copied or stolen by third parties who may provide such intellectual property to competitors of the Investment Manager. Even absent a security breach, the Investment Manager could inadvertently disclose confidential information to third parties. In addition, new regulations or additional scrutiny by regulators may require additional transparency with respect to the trading strategies used by firms deploying quantitative or algorithmic strategies, such as the Investment Manager. For example, additional position-level disclosure obligations have been proposed, as has the tagging of model-driven orders. Even if the regulations often only require reporting to governmental agencies, it is possible that the information will leak out to the public.

In each case, disclosure of the Investment Manager's intellectual property and confidential information would make it more likely that the Investment Manager's investment strategies could become known by competitors and could lead to opportunities for competitors to reverse-engineer all or part of the Investment Manager's strategies. As a result, the Fund may have correlated trading with funds that trade on the basis of such intellectual property and confidential information, which could have a materially adverse impact on the Fund's trading results.

***Third-Party Claims of Intellectual Property Infringement or Misappropriation.*** The Investment Manager's ability to carry out the Fund's trading activities will depend in part on such activities not infringing or misappropriating the patents, other intellectual property or trade secrets of third parties. Third parties may assert that the Fund or the Investment Manager is employing their proprietary technology without authorization. There may be third-party patents or patent applications with claims to technologies or methods of trading related to the Investment Manager's technology or trading strategies. The Fund and/or the Investment Manager may face a claim of intellectual property infringement or misappropriation of trade secrets, if a third party believes that the Fund or the Investment Manager uses the intellectual property or trade secrets of such third party.

If any third-party patents were held by a court of competent jurisdiction to cover aspects of the Investment Manager's technology or trading strategies, or if the Investment Manager is found to have misappropriated a third party's trade secrets, the third party may obtain injunctive or other equitable relief, which could effectively block the Investment Manager's ability to pursue a trading strategy unless Investment Manager obtains a license. These licenses may not be available on acceptable terms, if at all, or the licensed rights may be non-exclusive, which could result in competitors of the Investment Manager gaining access to the same intellectual property.

Defending against claims of patent infringement or misappropriation of trade secrets could be costly and time consuming, regardless of the outcome, and could burden the Fund and the Investment Manager with substantial unanticipated costs. In the event of a successful

claim of infringement or misappropriation against the Investment Manager and/or the Fund, the Investment Manager and/or the Fund may have to pay substantial damages, pay royalties, pay an account of profits made from the infringement, redesign infringing technology or trading strategies or obtain one or more licenses from third parties, which may not be possible or which may require substantial time and monetary expenditure.

***Use of Alternative Data.*** The Investment Manager may obtain and use alternative data in its investment process. Alternative data may consist of datasets that have been culled from a variety of sources, such as internet usage, payment records, financial transactions, weather and other physical phenomena sensors, applications and devices (such as smartphones) that generate location and mobility data, data gathered by satellites, and government and other public records databases (this data is sometimes referred to as “big data” or “alternative data”). The Investment Manager may apply this alternative data to better anticipate micro- and macro-economic trends and otherwise to develop or improve trading or investment themes. The analysis and interpretation of alternative data involves a high degree of uncertainty. The use of alternative data involves an inherent risk that the Investment Manager may rely on data outputs that reflect faulty system logic or that are based on inaccurate or incomplete data inputs. Moreover, there has been increased scrutiny from a variety of regulators regarding the use of alternative data for investment purposes, and its use or misuse under current or future laws and regulations could create liability for the Investment Manager or the Fund in various jurisdictions. In addition, any future limitations on the use of alternative data could have an adverse impact on the performance of the Fund.

***Leverage.*** The Fund will trade and invest on a substantially leveraged basis through its borrowings from counterparties. The Fund will also be subject to leverage that is embedded in certain derivative instruments and other investments in its portfolio. Losses incurred in respect of the Fund’s leveraged investments will be magnified in respect of the Fund’s Net Asset Value in direct proportion to the degree of leverage employed. The use of leverage may result in the forced liquidation of positions (which may otherwise have been profitable) as a result of margin or collateral calls. The Fund will also incur interest expenses on the borrowings used to leverage its positions. If gains earned by the Fund’s portfolio fail to cover such costs, the Fund’s Net Asset Value may decrease faster than if there had been no borrowings.

***Short Sales.*** The Fund will sell securities short. A short sale is effected by selling a security which the Fund does not own. In order to make delivery to the buyer of a security sold short, the Fund must borrow the security. In so doing, it incurs the obligation to replace that security, whatever its price may be, at the time it is required to deliver it to the lender. The Fund must also pay to the lender of the security any dividends or interest payable on the security during the borrowing period and may have to pay a premium to borrow the security. This obligation must be collateralized by a deposit of cash or marketable securities with the lender. Short selling is subject to a theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. There can be no assurance that the securities necessary to cover the short position will be available for purchase by the Fund. In addition, purchasing securities to close out the short position can itself cause the price of the relevant securities to rise further, thereby increasing the loss incurred by the Fund. Furthermore, the Fund may prematurely be forced to close out a short position if a counterparty from which the Fund borrowed securities demands their return, resulting in a loss on what might otherwise have been ultimately a profitable position. If it is determined by the broader market that the Fund (and others) are short a heavily shorted security, the Fund may be susceptible to the risk that groups of investors may coordinate, on social media or otherwise, to drive up the price of the short

position for the purpose of causing the holders of such a position, including the Fund, to close out of such position at a significant loss.

The U.S. government and certain non-U.S. jurisdictions have at times taken measures to impose restrictions on the ability of investors to enter into short sales, including a complete prohibition on taking short positions in respect of certain issuers. Such restrictions may negatively affect the ability of the Fund to implement its strategies. It cannot be determined how future regulations may limit the Fund's ability to engage in short selling and how such limitations may impact the Fund's performance.

***Hedging Techniques.*** The Investment Manager may engage in a variety of techniques to hedge certain risks at a position, strategy or overall portfolio level. Hedging techniques involve one or more of the following risks: (i) imperfect correlation between the performance or value of the instrument and the value of the Fund's instruments needing to be hedged; (ii) possible lack of a secondary market for closing out a position in such hedged instrument; (iii) losses resulting from interest rate, spread or other market movements not anticipated by the Investment Manager; (iv) the possible obligation to meet additional margin or other payment requirements, all of which could worsen the Fund's position; and (v) default or refusal to perform on the part of the counterparty with which the Fund trades.

Use of derivatives and other techniques for hedging purposes involves certain additional risks, including (i) dependence on the ability to predict movements in the price of the securities hedged; (ii) imperfect correlation between movements in the securities on which the derivative is based and movements in the assets of the underlying portfolio; and (iii) possible impediments to effective portfolio management or the ability to meet short term obligations because of the percentage of a portfolio's assets segregated to cover its obligations. In addition, by hedging a particular position, any potential gain from an increase in the value of such position may be limited.

The Investment Manager may choose to hedge all or certain risks in full, in part, or not at all, and in respect of particular positions or in respect of the Fund's overall portfolio. Certain risks may not be able to be effectively hedged by the Investment Manager. The Fund's portfolio composition will commonly result in various directional risks remaining unhedged. The Investment Manager may rely on diversification to control such risks to the extent that it believes it is desirable to do so but the Fund's governing documents do not impose any such requirements.

The ability of the Fund to hedge successfully will depend on the ability of the Investment Manager to predict pertinent market movements, which cannot be assured. Correlations between various instruments may become disrupted or change over time. To the extent that such correlations are used to implement hedging strategies, such hedging strategies may be ineffective or result in losses. The ongoing success of any hedging strategy is dependent on the ability to adjust hedges as markets or correlations change, and there can be no assurance that the Investment Manager will be able to make such adjustments successfully.

The Investment Manager will not be required to hedge and there can be no assurance that hedging transactions will be available or, even if undertaken, will be effective and not result in losses. Any hedging activity could result in increased use of cash for margin requirements, especially when the Fund's instruments and hedges are with different counterparties or clearing locations. In addition, it is not possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S.

currencies because the value of those securities is likely to fluctuate as a result of independent factors not related to currency fluctuations. Furthermore, by hedging a particular position, any potential gain from an increase in the value of such position may be limited.

**Relative Value Strategies.** The success of the Fund's relative value investing depends on the Investment Manager's ability to exploit relative mispricing's among interrelated instruments. Although relative value positions are considered to have a lower risk profile than directional investments as the former attempt to exploit price differentials rather than overall price movements, relative value strategies are by no means without risk. Mispricing's, even if correctly identified, may not converge within the time frame within which the Fund maintains its positions. In addition, arbitrage trades can result in significant losses if the arbitrage cannot be sustained (due, for example, to margin calls) until expiration. The Fund's relative value strategies are subject to the risks of disruptions in historical price relationships, the restricted availability of credit and the obsolescence or inaccuracy of its or third-party valuation models. Market disruptions may also force the Fund to close out one or more positions. Such disruptions have in the past resulted in substantial losses for investment funds employing relative value strategies.

In recent market conditions, the profitability of relative value investing has been materially reduced—in part due to the number of market participants seeking to exploit the same perceived mispricing's and increasing correlations in the equity markets.

**Spread Trading Risks.** Parts of the Investment Manager's investment strategies may involve the Fund entering transactions to realize gains from spread movements between two or more positions. To the extent the price relationships between such positions remain constant, no gain or loss on the positions may occur. In addition, such positions entail substantial risk that the price differential could change unfavourably, causing a loss to the spread position. Particularly in periods of low market volatility, such investment strategies may have materially diminished prospects for profitability.

**Directional Investments.** Certain of the positions taken by the Fund are designed to profit from forecasting absolute price movements in a particular instrument. Predicting future prices is inherently uncertain and the losses incurred, if the market moves against a position, will often not be hedged. The speculative aspect of attempting to predict absolute price movements is generally perceived to exceed that involved in attempting to predict relative price fluctuations.

**Reliance on Financial Reporting and Third-Party Research Service Providers.** The Investment Manager will rely on the financial information made available by the issuers in which the Fund will invest. The Investment Manager will also rely on information obtained from third-party research service providers regarding financial, economic, business and market conditions, factors and trends. The Investment Manager has no ability to independently verify the financial information disseminated by third-party research service providers and the numerous issuers in which the Fund may invest. As a result, the Investment Manager will generally be dependent upon the integrity of both the management of these issuers and the financial reporting process in general, as well as the reliability of other research service providers. Corporate mismanagement, fraud and accounting irregularities relating to the issuers of investments held by the Fund or other errors in information sources utilized by the Investment Manager may result in material losses.

**Risk of Litigation.** In the ordinary course of business, the Fund and the Investment Manager may be subject to litigation from time to time. The outcomes of such proceedings,

which may materially adversely affect the value of the Fund, are impossible to anticipate, and such proceedings may continue without resolution for long periods of time. Any litigation may consume substantial amounts of the Investment Manager's time and attention, and that time and the devotion of these resources to litigation may, at times, be disproportionate to the amounts at stake in the litigation. In addition, if the Investment Manager or the General Partner becomes subject to the litigation, the Fund may in the future be subject to additional costs and expenses relating to such litigation. Litigation that relates to employment matters may result in the Investment Manager not being permitted to benefit from the services of investment personnel and may result in substantial Pass-Through Expenses being charged to the Fund.

### **Risks Relating to the Assets Traded**

***Equities.*** The Fund's equity investments may involve substantial risks and may be subject to wide and sudden fluctuations in market value, with a resulting fluctuation in the amount of profits and losses. Relatively small companies may lack management depth or the ability to generate internally, or obtain externally, the funds necessary for growth. Companies with new products or services could sustain significant losses if projected markets do not materialize. Equity prices are directly affected by issuer specific events, as well as general market conditions. In addition, in many countries, investing in common stocks is subject to heightened regulatory and self-regulatory scrutiny as compared to investing in debt or other financial instruments. Changes in the structure of the equity markets or new market participants may materially impede the Fund's investment strategy.

***Risks of Investment in Small Capitalization and Mid-Capitalization Issuers.*** The pursuit of the Fund's investment strategy may result in a portion of the Fund's assets being invested in financial instruments of small-cap and mid-cap issuers. Financial instruments of small and mid-cap issuers pose certain distinctive risks. Some small and mid-cap issuers have limited product lines, markets or financial resources. They may be subject to high volatility in revenues, expenses and earnings. They may be dependent for management on one or a few key persons and can be more susceptible to losses and risks of bankruptcy. Their financial instruments may be thinly traded (and therefore have to be sold at a discount from current market prices or sold in small lots over an extended period of time), may be followed by fewer investment research analysts and may be subject to wider price swings and thus may create a greater chance of loss than when investing in financial instruments of larger-cap issuers. In addition, small and mid-cap issuers may not be well-known to the investment public and may have only limited institutional ownership. The market prices of financial instruments of small and mid-cap issuers generally are more sensitive to changes in earnings expectations, to corporate developments and to market rumours than are the market prices of large-cap issuers. Transaction costs in financial instruments of small and mid-cap issuers may be higher than in those of large-cap issuers.

***Options.*** Trading options is highly speculative and may entail risks that are greater than investing in other securities. Prices of options are generally more volatile than prices of other securities. In trading options, the Investment Manager will speculate on market fluctuations of securities and securities exchange indices while investing only a small percentage of the value of the securities underlying such option. A change in the market price of the underlying securities or underlying market index will cause a much greater change in the price of the option contract. In addition, to the extent that the Investment Manager causes the Fund to purchase options that it does not sell or exercise, the Fund will suffer the loss of the premium paid in such purchase. To the extent the Investment Manager causes the Fund to sell uncovered options and must deliver the underlying securities at the option price,



the Fund has a theoretically unlimited risk of loss if the price of such underlying securities increases. If the Fund must buy those underlying securities, the Fund risks the loss of the difference between the market price of the underlying securities and the option price. Any gain or loss derived from the sale or exercise of an option will be reduced or increased, respectively, by the amount of the premium paid. The expenses of option investing include commissions payable on the purchase and on the exercise or sale of an option. Furthermore, the risk of non-performance by the obligor on an option may be greater and the ease with which the Fund can dispose of such an option may be less than in the case of an exchange traded option.

The Investment Manager may cause the Fund to buy or sell OTC options—options that are not traded on a securities exchange and are not issued or cleared by an internationally recognized clearing corporation. The risk of non-performance by the obligor on such an option may be greater, and the ease with which the Fund can dispose of such an option may be less, than in the case of an exchange traded option issued by an internationally recognized clearing corporation.

**Stock Index Options.** The Fund may purchase and sell call and put options on stock indices listed on securities exchanges or traded in the over-the-counter market for the purpose of realizing its investment objectives or for the purpose of hedging its portfolio. A stock index fluctuates with changes in the market values of the stocks included in the index. The effectiveness of purchasing or writing stock index options for hedging purposes will depend upon the extent to which price movements in the Fund's portfolio correlates with price movements of the stock indices selected. Because the value of an index option depends upon movements in the level of the index rather than the price of a particular stock, whether the Fund realizes gains or losses from the purchase or writing of options on indices depends upon movements in the level of prices in the stock market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular stocks. Accordingly, successful use by the Fund of options on stock indices will be subject to the Investment Manager's ability to correctly predict movements in the direction of the stock market generally or of particular industries or market segments.

**Futures/Commodities.** Trading commodities and commodity interests (e.g., futures contracts on commodities, securities indices or currencies) are highly speculative and may entail risks that are greater than the risks associated with investing in securities. Prices of commodity interests are generally more volatile than prices of securities. Futures trading will have effects on the Fund's portfolio similar to the effects of leverage. The Fund may be exposed to market price fluctuations of securities or commodity interests underlying futures (or options on futures), while investing only a small percentage of the value of those underlying securities or commodity interests. the Investment Manager may open a futures position for the Fund by placing with a futures commission merchant an initial margin that is small relative to the value of the futures contract, making the transaction "leveraged." If the market moves against the Fund's position or margin levels are increased, the Fund may be called upon to pay substantial additional funds on short notice to maintain its position. If the Fund were to fail to make such payments, its position could be liquidated at a loss, and the Fund would be liable for any resulting deficit in its account. Further, investments in futures are subject to theoretically unlimited losses because there is no limit on how much the price of an underlying security or commodity interest may increase before the futures contract is closed out.

Futures positions may be illiquid because, among other things, most commodity exchanges limit fluctuations in certain futures contract prices during a single day. Once the

price of a contract for a particular future has increased or decreased by an amount equal to the “daily limit,” positions can be neither taken nor liquidated unless traders are willing to effect trades at or within the limit. Such an occurrence could prevent the Fund from liquidating unfavourable positions and subject it to substantial losses. In addition, the Fund may not be able to effect futures contract trades at favourable prices if trading volume in those contracts is low.

To the extent the Fund trades futures on exchanges in non-U.S. markets, the risks of these activities may be greater than trading in futures on U.S. exchanges. For example, non-U.S. futures are not cleared on and are not subject to the rules of a U.S. board of trade. Neither the CFTC nor the National Futures Association regulates activities of any non-U.S. board of trade, including execution, delivery and clearing of transactions, nor do they have any enforcement authority over non-U.S. boards of trade. In addition, funds provided as margin for non-U.S. futures and options may not be provided the same protections as funds received in respect of U.S. transactions.

**Forward Contracts.** The Fund may trade deliverable forward contracts in the inter-bank currency market. Such deliverable forward contracts are not currently traded on exchanges; rather, banks and dealers act as principals in these markets. The CFTC regulates non-deliverable foreign currency forwards. Changes in the forward markets entail increased costs and result in burdensome reporting requirements. There is currently no limitation on the daily price movements of forward contracts. Principals in the forward markets have no obligation to continue to make markets in the forward contracts traded. The imposition of credit controls by governmental authorities might limit such forward trading to less than that which the Investment Manager would otherwise recommend, to the possible detriment of the Fund.

**Convertible Securities.** The Fund may invest in convertible securities. Convertible securities may be exchanged or converted into a predetermined number of the issuer’s underlying shares or the shares of another company or that are indexed to an unmanaged market index at the option of the holder during a specified time period. Convertible securities may take the form of convertible preferred stock, convertible bonds or debentures, stock purchase warrants, zero-coupon bonds or liquid-yield option notes, stock index notes, mandatories, or a combination of the features of these securities. Prior to conversion, convertible securities have the same general characteristics as non-convertible debt securities. As with all debt securities, the market value of convertible securities tends to decline as interest rates increase, and, conversely, increase as interest rates decline. Convertible securities, however, also appreciate when the underlying common stock appreciates, and conversely, depreciate when the underlying common stock depreciates.

**Derivatives in General.** The Fund may make use of various derivative instruments, such as convertible securities, options, futures, forwards and swaps (including total return and equity swaps and swaptions). The use of derivative instruments involves a variety of material risks, including the extremely high degree of leverage sometimes embedded in such instruments. The derivatives markets are frequently characterized by limited liquidity, which can make it difficult as well as costly to close out open positions in order either to realize gains or to limit losses. The pricing relationships between derivatives and the instruments underlying such derivatives may not correlate with historical patterns, resulting in unexpected losses.

Use of derivatives and other techniques such as short sales for hedging purposes involves certain additional risks, including (i) dependence on the ability to predict movements

in the price of the securities hedged; (ii) imperfect correlation between movements in the securities on which the derivative is based and movements in the assets of the underlying portfolio; and (iii) possible impediments to effective portfolio management or the ability to meet short term obligations because of the percentage of a portfolio's assets segregated to cover its obligations.

The Fund may also use swaps to implement its equities strategies synthetically. The Fund's use of swaps is subject to the following risks: (i) credit risks (the exposure to the possibility of loss resulting from the counterparty's failure to meet its financial obligations); (ii) market risk (adverse movements in the price of a financial asset or commodity); (iii) legal risks (the characterization of a transaction or a party's legal capacity to enter into it could render the financial contract unenforceable, and the insolvency or bankruptcy of a counterparty could pre-empt otherwise enforceable contract rights); (iv) operational risk (inadequate controls, deficient procedures, human error, system failure or fraud); (v) documentation risk (exposure to losses resulting from inadequate documentation); (vi) liquidity risk (exposure to losses created by inability to prematurely terminate the derivative); (vii) system risk (the risk that financial difficulties in one institution or a major market disruption will cause uncontrollable financial harm to the financial system); (viii) concentration risk (exposure to losses from the concentration of closely related risks such as exposure to a particular industry or exposure linked to a particular entity); and (ix) settlement risk (the risk faced when one party to a transaction has performed its obligations under a contract but has not yet received value from its counterparty).

**Exchange-Traded Funds.** The Fund may invest in exchange-traded funds ("ETFs"). ETFs represent shares of ownership in either funds or unit investment trusts that hold portfolios of common stocks, bonds or other instruments, which are designed to generally correspond to the price and yield performance of an underlying index. A primary risk relating to ETFs is that the general level of stock or bond prices may decline, thus affecting the value of an equity or fixed income ETF, respectively. An ETF may also be adversely affected by the performance of the specific sector or group of industries on which it is based. Moreover, although ETFs are designed to provide investment results that generally correspond to the price and yield performance of their underlying indices, ETFs may not replicate the performance of the indices because of various sources of tracking error, including the expenses associated with ETFs and a number of other factors.

**Fixed-Income Investments.** The value of the fixed-income securities in which the Fund may invest will change both as general market conditions change and as the general levels of interest rates fluctuate. When interest rates decline, the value of fixed-income securities is generally expected to rise. Conversely, when interest rates rise, the value of such securities is generally expected to decline. Investments in lower rated or unrated fixed-income securities in which the Fund may invest, while generally providing greater opportunity for gain and income than investments in higher rated securities, usually entail greater risk (including the possibility of default or bankruptcy of the issuers of such securities).

**Currency Exchange Exposure and Currency Hedging.** Because the Fund may invest in non-U.S. securities that are denominated or quoted in non-U.S. currencies, whereas the functional currency of the Fund is denominated in U.S. dollars, performance may be significantly affected, either positively or negatively, by fluctuations in the relative currency exchange rates and by exchange control regulations. To the extent the Fund seeks to hedge its currency exposure, it may not always be practicable to do so. Moreover, hedging may not alleviate all currency risks. Furthermore, the Fund may incur costs in connection with conversions between various currencies. Currency exchange dealers realize a profit based on

the difference between the prices at which they are buying and selling various currencies. Thus, a dealer normally will offer to sell currency to the Fund at one rate, while offering a lesser rate of exchange should the Fund desire immediately to resell that currency to the dealer. The Fund may conduct its currency exchange transactions either on a spot (*i.e.*, cash) basis at the spot rate prevailing in the currency exchange market, or through entering into a number of different types of hedging transactions including, without limitation, forward, futures or commodity options contracts to purchase or sell currencies, and entering into foreign currency borrowings.

To the extent the Fund enters into currency forward contracts (agreements to exchange one currency for another at a future date), these contracts involve a risk of loss if the Fund fails to predict accurately the direction of currency exchange rates. In addition, forward contracts are not guaranteed by an exchange or clearinghouse. Therefore, a default by the forward contract counterparty may result in a loss to the Fund for the value of unrealized profits on the contract or for the difference between the value of its commitments, if any, for purchase or sale at the current currency exchange rate and the value of those commitments at the forward contract exchange rate. Any government action that alters the convertibility of a currency or restricts the ability to repatriate funds into U.S. dollars could cause economic losses to the Fund. Furthermore, while the markets for currency forward contracts are not currently regulated, they may in the future become subject to regulation, a development which may entail increased costs and result in burdensome reporting requirements.

There can be no guarantee that instruments suitable for hedging currency shifts will be available at the time the Investment Manager wishes to use them or will be able to be liquidated when the Investment Manager wishes to do so. In addition, the Investment Manager may choose not to enter into hedging transactions with respect to some or all of its positions that are exposed to currency exchange risk.

***International Investing.*** Investing outside the United States may involve greater risks than investing in the United States. These risks include: (i) less publicly available information; (ii) varying levels of governmental regulation and supervision; and (iii) the difficulty of enforcing legal rights in a non-U.S. jurisdiction and uncertainties as to the status, interpretation and application of laws. Moreover, non-U.S. companies are generally not subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to U.S. companies.

Non-U.S. markets may also have different clearance and settlement procedures, and in certain markets there have been times when settlements have failed to keep pace with the volume of securities transactions, making it difficult to conduct such transactions. Delays in settlement could result in periods when assets of the Fund are uninvested, and no return is earned thereon. The inability of the Fund to make intended security purchases due to settlement problems or the risk of intermediary counterparty failures could cause the Fund to miss investment opportunities. The inability to dispose of a security due to settlement problems could result either in losses to the Fund due to subsequent declines in the value of such structured credit security or, if the Fund has entered into a contract to sell the security, could result in possible liability to the purchaser. Transaction costs of buying and selling non-U.S. securities, including brokerage, tax and custody costs, also are generally higher than those involved in domestic transactions. Furthermore, some non-U.S. financial markets have substantially less volume than U.S. markets, and securities of many non-U.S. companies are less liquid and their prices more volatile than securities of comparable domestic companies.

The economies of individual non-U.S. countries may also differ favourably or unfavourably from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, volatility of currency exchange rates, depreciation, capital reinvestment, resources self-sufficiency and balance of payments position.

***Emerging Market Securities Involve Substantial Risks.*** The Fund may invest a portion of its assets in the securities (or instruments thereto) of less developed countries or countries with new or developing capital markets (“Emerging Markets”) as well as trades the currencies of such countries for hedging purposes. The value of Emerging Market currencies and securities may be drastically affected by political developments in the country of issuance. In addition, the existing governments in the relevant countries could take actions that could have a negative impact on the Fund, including nationalization, expropriation, imposition of confiscatory taxation or regulation or imposition of withholding taxes on interest payments or gains.

Some of the countries in which the Fund may invest have experienced, are experiencing or will experience political, economic and/or social instability. Many such countries have also experienced dramatic swings in the value of their national currency. There can be no assurance that such instability or such fluctuations will not occur in the future and, if they do occur, that they will not have a substantial adverse effect on the performance of the Fund.

The economies of many of the Emerging Market countries are still in the early stages of modern development and are subject to abrupt and unexpected change. In many cases, governments retain a high degree of direct control over the economy and may take actions having sudden and widespread effects. Also, many Emerging Market country economies have a high dependence on a small group of markets or even a single market.

Emerging Market countries tend to have periods of high inflation and high interest rates as well as substantial volatility in interest rates, which could affect any of the Fund’s investments in them adversely.

The currencies and securities purchased by, and the instruments relating thereto entered into by, the Fund may lack a liquid trading market, which may result in the inability of the Fund to sell such security or currency or to close out a transaction, thereby forcing the Fund to incur potentially unlimited losses.

Foreign investment in the Emerging Market countries is in some cases restricted. Many of these countries have non-convertible currencies and the value of investments may be affected by fluctuation in available currency rates and exchange control regulations. The remittance of profits may therefore be restricted, and the Fund may need to utilize swaps, participation agreements, loans, and other indirect investment techniques to access markets and remit profits. Moreover, the banking systems in these countries are not as developed as their developed counterparts and considerable delays may occur in the transfer of funds within, and the remittance of monies out of, these countries.

In certain cases, the structures which the Fund employs to make trades in Emerging Market currencies and securities may be complex, entail significant counterparty exposure and/or not clearly comply with local law. The Fund may invest in Emerging Markets currencies and securities through various swaps and derivatives.

Certain Emerging Markets countries are particularly likely to require identifying information about entities and persons who have direct, or even indirect, exposure to the securities of issuers in those countries. This may result in the Fund being asked to provide information about Fund investors to Emerging Markets regulators or to the brokers who are providing services to the Fund in connection with investing activities. Such information may include, but may not be limited to, the identities, addresses and countries of origin of the Shareholders.

#### **Risks Relating to the Structure of the Fund**

***Limitations on Redemptions.*** A Shareholder's right to redeem will be limited and subject to certain restrictions, limitations, conditions and the Fund's right to suspend the determination of Net Asset Value, limit or suspend redemptions and/or delay the payment of redemption proceeds, as described under "Summary of Principal Terms—Liquidity" and "The Fund and the Shares—Suspension of Determination of Net Asset Value and Redemptions." Accordingly, an investment in the Fund should be considered relatively illiquid and not a readily available source of liquid funds.

Redemptions in respect of the Shares offered pursuant to this Memorandum may only be made as of any Redemption Date applicable to the relevant Series of Shares with 60 days' prior written notice. Because notices of redemptions must be submitted significantly in advance of the actual Redemption Date, the value received upon a redemption may differ materially from the value at the time a decision to request a redemption is made. Redemption proceeds may be reduced due to the charging or accrual of Pass-Through Expenses and Fund Expenses and/or the establishment of reserves. Subscribers for Series I Shares should be aware that other Series of Shares are permitted to request redemptions at the end of each calendar month, potentially allowing them to redeem from the Fund sooner and more frequently than the Shareholders holding Series I Shares.

***Effect of Substantial Redemptions of Capital.*** Substantial redemptions of capital by investors in the Fund or the Other Feeder Funds over a short time period could necessitate the liquidation of securities positions by the Fund at a time and in a manner that does not provide the most economic advantage to the Fund and could therefore adversely affect the value of the assets of the Fund. In addition, the resulting reduction in portfolio assets of the Fund could make it more difficult to generate a positive rate of return, implement diversification or recoup losses due to a reduced equity base and will increase the *pro rata* share of Pass-Through Expenses and Fund Expenses that will be borne by each remaining Shareholder.

***Differential Redemption Terms.*** Series A Shares may be redeemed on a more frequent basis (*i.e.*, monthly instead of quarterly) than Series I Shares. Accordingly, Shareholders holding Series A Shares will have an advantage with respect to their ability to liquidate an investment in the Fund, including in the event of Fund losses, a market downturn or otherwise, potentially avoiding exposure to disadvantageous market conditions that Shareholders holding Series I Shares are unable to avoid.

***Transaction Costs.*** The Fund will engage in high rates of trading activity resulting in correspondingly high transaction costs being borne by the Fund, including substantial brokerage commissions, spread fees and other transaction costs, which could have an adverse effect on the Fund's performance. Transaction costs are increased by the use of leverage. The Fund may continue to limit itself to the use of custodians, futures clearers, brokers, clearinghouses, exchanges or other counterparties that meet certain criteria determined from

time to time by the Investment Manager. These limitations may continue to result in the Fund paying more for such services than would be the case if it chose such agents solely on the basis of price.

***Contingent Liabilities.*** The Fund has the power to establish such reserves for unknown or contingent liabilities as the Board of Directors may deem advisable. This could occur, for example, if there is any pending transaction or claim by or against the Fund involving, or that may affect the book value of, the Shares of a redeeming Shareholder or the obligations of a redeeming Shareholder which cannot be then ascertained.

***Attribution of Reserves, Liabilities and Windfalls Relating to Prior Periods.*** The Investment Manager (with the approval of the Board of Directors) may determine to establish reserves for the Fund for contingent, unknown, or unfixed debts, liabilities, or obligations of the Fund as the Investment Manager may deem advisable notwithstanding that such reserves are not required by GAAP. Upon the reversal of such reserves, only those Shareholders that are Shareholders during the accounting period during which the reversal occurs will be credited with the released assets. Any Shareholders that previously redeemed from the Fund will not participate in such reversal. Similarly, any liability or expenditure of the Fund that the Fund becomes aware of that relates to a prior period will not be applied to such prior period, and current Shareholders (as opposed to those who were Shareholders in the Fund in such prior period) will bear such liability. Similarly, if the Fund benefits from a claim (such as a class action) that relates to a prior period, such benefit will be allocated to the Shareholders in the Fund at the time the Fund receives the proceeds of such claim. Shareholders who redeemed from the Fund between the period to which the claim relates and the period in which such benefit is realized will not participate in such benefit. Shareholders bear the risks associated with the timing of the Fund becoming aware of such items of gains and losses and the timing of their subscriptions to and redemptions from the Fund.

***Shareholders May Be Subject to Cross-Class or Cross-Series Liability Risk.*** The Fund has the power to issue Shares in classes, Series and/or Sub-Series. The Articles generally provide that liabilities are to be attributed to the specific class, Series or Sub-Series in respect of which the liability was incurred. However, the Fund is a single legal entity and there is no limited recourse protection for any class, Series or Sub-Series. Accordingly, all of the assets of the Fund will be available to meet all of its liabilities regardless of the class, Series or Sub-Series to which such assets or liabilities are attributable. In practice, cross-class, cross-Series or cross-Sub-Series liability is only expected to arise where liabilities referable to one class, Series or Sub-Series are in excess of the assets referable to such class, Series or Sub-Series and such class, Series or Sub-Series is unable to meet all liabilities attributed to it. In such a case, the assets of the Fund attributable to other classes, Series or Sub-Series may be applied to cover such liability excess and the aggregate Net Asset Value of the contributing classes, Series or Sub-Series will be reduced as a result.

***Custody.*** The Fund will not maintain custody of a majority of its securities or place its securities in the custody of a bank or a member of a national securities exchange in the manner required of registered investment companies under rules promulgated by the SEC. A registered investment company which places its securities in the custody of a member of a national securities exchange is required, among other things, to have a written custodian agreement, which provides that securities held in custody will be at all times individually segregated from the securities of any other person and marked to clearly identify such securities as the property of such investment company. The Fund will generally maintain such accounts at brokerage firms which do not separately segregate such assets. Under the provisions of the Securities Investor Protection Act of 1970, as amended, the bankruptcy of

any such brokerage firm might have a greater adverse effect on the Fund than would be the case if the accounts were maintained to meet the requirements applicable to registered investment companies. Moreover, records with respect to certain financial instruments held by the Fund, such as in the case of certain private securities, may be maintained by the Investment Manager.

***Possible Indemnification Obligations; Exculpation.*** The Fund and/or the Master Fund have agreed or may agree to indemnify, among others, the Administrator, the Investment Manager, prime brokers and custodians (each, a “Prime Broker”), the Board of Directors, other parties and each of their respective agents, principals, officers, employees and affiliates under certain circumstances. Under the Master Fund Partnership Agreement, no Entropy Party (as defined below) will be liable to the Master Fund for Losses (as defined in the Master Fund Partnership Agreement) except to the extent that it is finally adjudicated that such act or omission was material to the matter giving rise to such Losses and was committed by such Entropy Party with fraud, wilful misconduct or gross negligence. The Investment Management Agreement includes substantially similar exculpation provisions. Accordingly, any interest and penalties (e.g., late fees) imposed on the Fund, the Investment Manager or its affiliates will be borne by the Fund (and not the General Partner or the Investment Manager) unless such interest or penalty was the result of an Entropy Party’s fraud, wilful misconduct or gross negligence.

***Master-Feeder and Trading Subsidiary Structure.*** The Fund invests through a “master-feeder” structure. The “master-feeder” fund structure presents certain unique risks to investors. For example, a smaller fund investing in the Master Fund may be materially affected by the actions of a larger feeder fund. If a larger feeder fund withdrew from the Master Fund, the remaining feeder fund would likely experience higher *pro rata* expenses, thereby providing lower returns. The Master Fund may become less diverse due to redemption by a larger feeder fund, resulting in increased portfolio risk.

The Fund through its investment in the Master Fund may implement certain strategies through Trading Subsidiaries. Other accounts (i.e., any accounts outside the Fund’s “master-feeder” fund structure) that may in the future be managed by the Investment Manager or third-party investors may invest in Trading Subsidiaries in addition to the Fund. Such Trading Subsidiaries are permitted to take various corporate forms, be leveraged, be established in various jurisdictions and be structured to meet various regulatory requirements. The Master Fund may enter into intercompany loans with certain Trading Subsidiaries for purposes of funding the operations and trading activities of such Trading Subsidiaries and moving capital between the Master Fund and such Trading Subsidiaries in an efficient manner. Although the Investment Manager expects that the other accounts or investors investing in Trading Subsidiaries will do so on comparable terms as the Fund, such terms of investment may be different. Further any third-party investor may exercise their liquidity rights independently of the Investment Manager, which may have an adverse impact on the Fund’s investment in the Trading Subsidiary.

***Lack of Independent Experts Representing Investors.*** While the Investment Manager has consulted with counsel, accountants and other experts regarding the structure and terms of the Fund, such counsel, accountants and other experts do not represent the Fund or the Shareholders. The Fund and the Investment Manager urge each prospective investor to consult its own legal, tax and financial advisers regarding the desirability of purchasing Shares and the suitability of an investment in the Fund.



***Shareholders Will Not Participate in Management.*** A Shareholder has no right to participate in the management of the Fund or in the conduct of its business. There exists broad discretion to expand, revise or contract the Fund's business without the consent of the Shareholders. In addition, Shareholders are completely dependent upon the skill, judgment and expertise of the Investment Manager and its employees to manage the Fund's portfolio.

***Performance Allocation.*** The General Partner, an affiliate of the Investment Manager, could receive substantial allocations at the Master Fund-level in the event that the Fund generates Net Capital Appreciation for its Shareholders. Prospective investors should note that (i) the fact that the Performance Allocation is allocated at the Master Fund level only in respect of Net Capital Appreciation in respect of a Sub-Series may create an incentive for the Investment Manager to make investments that are riskier or more speculative than would be the case if the General Partner were compensated solely based on a flat percentage of capital and (ii) the General Partner may receive increased allocations because the Performance Allocation is calculated on a basis that includes unrealized appreciation as well as realized gains in respect of a Sub-Series. If the General Partner receives a Performance Allocation in any year and a Sub-Series subsequently suffers a net loss, the General Partner will be entitled to retain any and all Performance Allocations previously allocated to it in respect of such Sub-Series notwithstanding such net loss.

***Limited Regulatory Oversight.*** Neither the Fund nor the Master Fund is registered as an "investment company" under the Company Act or any comparable regulatory requirements and does not intend to do so. Accordingly, the provisions of such regulations, which among other things generally require investment companies to have a majority of disinterested directors and regulate the relationship between the investment company and its asset manager, are not applicable to an investment in the Fund. Neither the Fund nor the Master Fund is subject to comparable regulation in any non-U.S. jurisdiction. Therefore, investors in the Fund do not have the benefit of the protections afforded by, nor is the Fund subject to the restrictions contained in, such registration and regulation.

***ERISA Matters.*** Most pension and profit-sharing plans, individual retirement accounts and other tax-advantaged retirement funds are subject to provisions of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or both, which may be relevant to a decision as to whether such an investor should invest in the Fund. There may, for example, be issues as to whether such an investment is "prudent." Further, to the extent the Master Fund's assets are not deemed to be "plan assets" for purposes of ERISA and Section 4975 of the Code (which the Investment Manager intends to be the case), the Investment Manager will not be required to comply with the fiduciary provisions of ERISA with respect to the assets of the Master Fund. Legal counsel should be consulted by such an investor before investing in the Fund. See "Investments by Employee Benefit Plans."

## **Tax Risks**

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

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

***U.S. Source Payments to the Master Fund and/or the Fund May Be Subject to Withholding Under FATCA.*** The Foreign Account Tax Compliance Act and the regulations and administrative guidance promulgated thereunder (“FATCA”) provides that a 30% withholding tax will be imposed on certain payments of U.S. source income unless the Fund enters into an agreement with the Internal Revenue Service (the “IRS”) to disclose the name, address and taxpayer identification number of certain U.S. persons that own, directly or indirectly, an interest in the Fund, as well as certain other information relating to such interest. The IRS has released regulations and other guidance that provide for the phased implementation of the foregoing withholding and reporting requirements. On November 29, 2013, the United States Department of Treasury signed a Model 1 non-reciprocal intergovernmental agreement (“US IGA”) with the Cayman Islands. The US IGA modifies the foregoing requirements but generally requires similar information to be disclosed to the Cayman Islands government and ultimately to the IRS. Although the Fund will attempt to satisfy any obligations imposed on it to avoid the imposition of this withholding tax, no assurance can be given that the Fund will be able to satisfy these obligations. If the Fund becomes subject to a withholding tax as a result of FATCA, the return of all Shareholders may be materially affected. The Master Fund will be subject to similar requirements under FATCA. Prospective investors are encouraged to consult with their own tax advisors regarding the possible implications of FATCA on their investments in the Fund.

***Consequences for Investors as a Result of Automatic Exchange of Information (“AEOI”) – FATCA/Common Reporting Standard (“CRS”).*** The Fund may take such action as it considers necessary in relation to a Shareholder’s investment or due redemption proceeds, as a result of relevant legislation and regulations, including but not limited to AEOI, as further detailed in the section of this Memorandum entitled “Certain Tax Considerations.” Such actions may include, but are not limited to, the following:

1. The disclosure by the Fund, the Administrator or such other service provider or delegate of the Fund of certain information relating to a Shareholder to the Cayman Islands Tax Information Authority or its delegate (the “TIA”) or equivalent authority and any other foreign government body as required by AEOI. Such information may include, without limitation, confidential information such as financial information concerning an investor’s investment in the Fund and any information relating to any shareholders, principals, partners, beneficial owners (direct or indirect) or controlling persons (direct or indirect) of such investor.
2. The Fund may compulsorily redeem any Shares held by a Shareholder in accordance with the terms of this Memorandum and may deduct relevant amounts from a recalcitrant Shareholder so that any withholding tax payable by the Fund or any related costs, debts, expenses, obligations or liabilities (whether internal or external to the Fund) are recovered from such Shareholder(s) whose action or inaction (directly or indirectly) gave rise or contributed to such taxes, costs or liabilities. Failure by a Shareholder to assist the Fund in meeting its obligations pursuant to AEOI may therefore result in pecuniary loss to such investor.

***The Fund May Mandatorily Redeem any Shareholder that Fails to Cooperate with the Fund’s Efforts to Comply with FATCA.*** The Fund’s ability to comply with FATCA and CRS will depend on each Shareholder providing the Fund with information that the Fund requests

concerning the direct and indirect owners of such Shareholder. If a Shareholder fails to provide the Fund with any information the Fund requests, the Fund may exercise its right to mandatorily redeem such Shareholder and/or create a separate class or series for such Shareholder and charge such Shareholder for any withholding attributable to such Shareholder's failure to provide the requested information.

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

**Changes in Tax Laws.** All discussions herein on U.S. federal, state, local, non-U.S. income or other tax consequences of an investment in the Fund are based on existing laws. Recent fiscal strains on governments have increased the likelihood of new tax legislation generally increasing taxes, imposing taxes on trading, including but not limited to, stamp duty, financial transactions tax or similar taxes. Changes to tax laws could materially affect the performance of the Fund and the Master Fund and the tax consequences to a Shareholder's investment in the Fund, the tax treatment of the Fund's investments and the overall cost of making Fund investments. While some changes may be beneficial, others could negatively impact the after-tax returns of the Fund and the Shareholders. Such changes could also impact the taxes applicable to the management entities, which could result in an increase in Pass Through Expenses and/or Fund Expenses that are borne by the Fund. Accordingly, no assurance can be given that the currently anticipated tax treatment of an investment in the Fund, or of investments made by the Fund, will not be modified by legislative, judicial or administrative changes, possibly with retroactive effect, to the detriment of the Shareholders.

#### **Item 9: Disciplinary Information**

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

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

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Neither we nor our management persons are registered as broker-dealers, and neither of us has any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer, respectively.

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

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

Entropy has adopted a "**Code of Ethics**" that establishes the high standard of conduct that we expect of our employees and procedures regarding our employees' personal trading of securities. Our 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 our 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 should not take inappropriate advantage of their positions with the Adviser.
- Employees must comply with all applicable "**Federal Securities Laws**

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 investments such as stocks, bonds, fixed income, options, warrants, futures, and derivatives) 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 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, (ii) making any private investments, (iii) making any political contributions and (iv) participating in any Initial Public Offerings ("**IPOs**").

Employees that maintain Non-Discretionary Managed Accounts (in which the employee has no direct or indirect control over investment decisions), are exempt from the trading restrictions and prohibitions of the Personal Trading Policy in the Code of Ethics. The CCO needs to grant approval prior to an account being deemed a Non-Discretionary Managed Account.

We will provide a copy of our Code of Ethics to our Investors, or any prospective investor, upon request, to be viewed on the premises.

## **Item 12: Brokerage Practices**

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Entropy is authorized to determine the broker-dealer to be used for executing securities transaction for the Funds. In selecting broker-dealers to execute transactions, we do not need to solicit competitive bids and do not have an obligation to seek the lowest available commission cost. It is not our 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.

We 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, we seek 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 favourable under the circumstances. Accordingly, in seeking Best Execution, we will take into consideration the price of a security offered by the broker-dealer, as well as a broker-dealers’ full range and quality of their services including, among other things, their facilities, reliability and financial responsibility, execution capability, commission rates, responsiveness to us, brokerage and research services provided to us (for example, research ideas, analysis, and investment strategies), special execution and block positioning capabilities, clearance, and settlement and custodial services.

### ***Soft Dollars***

At this time Entropy does not participate in the use of Soft Dollars, however if Entropy decides to participate in a Soft Dollar program in the future, the Adviser will implement the appropriate policies and procedures.

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

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Our Portfolio Managers and investment professionals continuously monitor and analyze the transactions, positions, and investment levels of the Fund to ensure that they conform with the investment objectives and guidelines that are stated in the Fund’s Offering Documents. In these reviews, the Firm pays particular attention to any changes in the investment’s fundamentals, overall risk management and changes in the markets that may affect price levels.

### ***Account Reporting***

We perform various periodic reviews of each client’s portfolio. Such reviews are conducted by our officers.

We will distribute an audited financial report with respect to the previous fiscal year to all Investors within 120 days of fiscal year end. We will also distribute monthly unaudited net asset value statements and may distribute quarter-end performance reports, and a quarterly investor letter to all investors.

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

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We do not receive economic benefits from non-clients for providing investment advice and other advisory services. Neither we nor any of our related persons, directly or indirectly, compensate any person who is not a supervised person for client referrals.

## **Item 15: Custody**

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We will be deemed to have custody of Client funds and securities because we have the authority to obtain Client funds or securities, for example, by deducting advisory fees from a

Client's account or otherwise withdrawing funds from a Client's account. Account statements related to the Clients are sent by qualified custodians to Entropy.

We will comply 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. 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), we will distribute the Fund’s audited financials to Investors within 120 days of such Fund’s fiscal year end.

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

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Entropy will have discretionary authority to manage the assets of each Client. This discretionary authority is conferred to the Firm pursuant to investment management agreements between Entropy and each respective Client. The investment management agreements provide that Entropy has complete discretion regarding the investment of a Clients’ assets in accordance with the investment objectives, policies and parameters set forth in the applicable governing documents of each Client.

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

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Entropy will not vote proxies for clients’ accounts.

#### **Item 18: Financial Information**

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