Town of Wilton, Ref. #44024

Name of Offeree: _________
Copy No.: __________

SUPPLEMENT TO THE

CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM

OF

AON ALTERNATIVES FUND SPC

A Cayman Islands exempted company registered as a segregated portfolio company

IN RESPECT OF AON OPPORTUNISTIC CREDIT PORTFOLIO SP

Supplement Date: July 2020

THIS IS A SUPPLEMENT TO THE CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM OF AON ALTERNATIVES FUND SPC (THE "FUND"), DATED JULY 2020 (THE "MEMORANDUM"), WHICH IS HEREBY INCORPORATED BY REFERENCE. POTENTIAL SHAREHOLDERS MUST REVIEW THE MEMORANDUM AND THIS SUPPLEMENT BEFORE SUBSCRIBING FOR SHARES.

A MUTUAL FUND LICENCE ISSUED OR A FUND REGISTERED BY THE CAYMAN ISLANDS MONETARY AUTHORITY DOES NOT CONSTITUTE AN OBLIGATION OF THE AUTHORITY TO ANY INVESTOR AS TO THE PERFORMANCE OR CREDITWORTHINESS OF THE FUND. FURTHERMORE, IN ISSUING SUCH A LICENCE OR IN REGISTERING A FUND, THE AUTHORITY SHALL NOT BE LIABLE FOR ANY LOSSES OR DEFAULT OF THE FUND OR FOR THE CORRECTNESS OF ANY OPINIONS OR STATEMENTS EXPRESSED IN ANY PROSPECTUS OR OFFERING DOCUMENT.

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AON ALTERNATIVES FUND SPC
c/o Maples Corporate Services Limited
PO Box 309, Ugland House
Grand Cayman KY1-1104
Cayman Islands

Aon Opportunistic Credit Portfolio SP (the "Portfolio") is a segregated portfolio of Aon Alternatives Fund SPC, a Cayman Islands exempted company registered as a segregated portfolio company (the "Fund"). This Supplement in respect of the Portfolio (the "Supplement"), which describes the specific terms applicable to the Portfolio, identifies and provides information on the investment manager, as defined below, and describes the investment program and strategy of such Portfolio as well as the associated risks and conflicts and supplements, amends the Confidential Private Placement Memorandum of the Fund dated July 2020 (as amended and/or supplemented from time to time, the "Memorandum"). This Supplement must be read together with the Memorandum. Except as otherwise expressly provided herein, this Supplement does not update, amend, modify or supersede, in whole or in part, any term or disclosure contained in the Memorandum, including, without limitation, the tax disclosure provided therein. Capitalized terms used in this Supplement and not defined herein have the meanings set forth in the Memorandum.

The information contained in this Supplement is being furnished on a confidential basis to prospective investors in the Portfolio, and may not be reproduced or used for any other purpose without the prior written consent of the Fund or Aon Investments USA Inc. (formerly known as Aon Hewitt Investment Consulting, Inc.) (the "Investment Manager"). Notwithstanding anything to the contrary in this Supplement, each investor (and each employee, representative or other agent of such investor) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of (i) the Fund and the Portfolio and (ii) any of the Portfolio's transactions, and all materials of any kind (including opinions or other tax analyses) that are provided to such investor relating to such tax treatment and tax structure, it being understood that "tax treatment" and "tax structure" do not include the name or the identifying information of (i) the Fund or the Portfolio or (ii) the parties to a transaction.

* * *

The Memorandum is hereby supplemented as follows:

I. Summary of Terms

THE PORTFOLIO

The Portfolio was established under the laws of the Cayman Islands on July 10, 2020 as a segregated portfolio of the Fund.

The address of the Fund's registered office is: c/o Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands.

Copies of the constitutional documents of the Fund can be inspected at the address of the Fund's registered office.

Copies of any annual reports in relation to the Portfolio can be inspected, upon reasonable notice, at the Investment Manager's office: 200 E. Randolph St. Chicago IL 60601.

INVESTMENT OBJECTIVE AND PROGRAM

The Portfolio's investment objective is to seek to generate attractive returns by investing in a range of credit opportunities. The Portfolio seeks to achieve its investment objective by allocating its capital primarily among a select group of experienced portfolio managers ("Managers"), identified for their respective abilities in implementing various credit strategies and previous experience in credit downturns, through investments in collective investment vehicles ("Portfolio Entities") managed by such Managers.

(See "Investment Objective, Investment Strategy, Risk Management and Investment Restrictions").

THE SHARES

The Portfolio is hereby offering class A shares (the "Class A Shares") and class B shares (the "Class B Shares" together with Class A Shares, the "Shares") upon the terms and conditions set forth herein. Both Class A Shares and Class B Shares are non-voting shares.

Class A Shares will generally be offered to existing discretionary or delegated clients of the Investment Manager and affiliates of the Investment Manager, in each case, as determined by the Investment Manager, in its sole discretion.

Class B Shares will generally be offered to all other investors.

The Portfolio may in the future offer one of more classes of Shares (each, an "Additional Class") and may charge fees to any such Additional Class that differ from those described in

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this Supplement.

The Shares are issued in series in respect of each capital contribution in registered, book-entry form at a purchase price of $1,000 per Share. Shares that are compulsorily redeemed will be redeemed at a price determined by the net asset value (the "NAV") of the Shares, except in the case of default (See "Default" below).

INVESTMENT MANAGER

The Investment Manager has been appointed as the investment manager of the assets of the Portfolio pursuant to an investment management agreement (the "AIUS Agreement") by and between the Fund for the account of the Portfolio and the Investment Manager. As further described below, the Investment Manager, in its capacity as the investment manager of the Portfolio, will generally invest the assets of the Portfolio in investment funds, in each case managed by the Managers, as defined below. (See "Investment Objective, Investment Strategy, Risk Management and Investment Restrictions").

SUBSCRIPTIONS

The sections of the Memorandum entitled "Summary of Terms—Offering of Shares" and "Summary of Terms—Initial and Additional Subscriptions" are excluded from the Memorandum for the purpose of the offering of Shares of the Portfolio. This "Summary of Terms—Subscriptions" section of the Supplement replaces and supersedes the sections of the Memorandum entitled "Summary of Terms—Offering of Shares" and "Summary of Terms—Initial and Additional Subscriptions" in their entirety.

The Portfolio will accept subscriptions for Shares by accepting capital commitments ("Capital Commitments"). The Portfolio will only accept Capital Commitments at Closings, as defined below.

The minimum initial Capital Commitment is $1 million. The Board of Directors, in its sole discretion, may accept Capital Commitments of lesser amounts or establish different minimums or reject any subscription, in whole or in part, for any reason or no reason; *provided* that at no time will a minimum initial investment amount of less than $100,000, or such other minimum amount as specified under Cayman Islands law from time to time, be accepted.

The account of the Portfolio will be maintained in US Dollars.

CLOSINGS

An initial closing of the Portfolio (the "Initial Closing") will be held on July 23, 2020. The Portfolio may hold subsequent closings ("Subsequent Closings") at the discretion of the

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Investment Manager; *provided*, that the final closing of the Portfolio (the "Final Closing," together with the Initial Closing and the Subsequent Closings, the "Closings," each, a "Closing") will occur no later than the 12th month after the Initial Closing date.

INVESTORS IN SUBSEQUENT CLOSINGS

Shares issued by the Portfolio subsequent to the Initial Closing will participate in the unrealized investments, if any, made by the Portfolio prior to their issuance.

As regards to Shares issued at a Subsequent Closing, the applicable Shareholders will be required to contribute an amount equal to their pro rata share of all amounts funded from Capital Commitments in respect of unrealized investments made by the Portfolio and Portfolio Expenses (as defined below), plus an additional amount thereon calculated in the same manner as interest at a rate equal to 8% per annum ("Additional Amounts"). The amount contributed by the Shareholders pursuant to the immediately previous sentence will be distributed to the previously admitted Shareholders in proportion to their respective funded Capital Commitments and, other than Additional Amounts, will be added back to such Shareholders' unfunded Capital Commitments and may be drawn again by the Portfolio. The Investment Manager may make adjustments to the amounts to be contributed pursuant to this paragraph as it believes would be fair and equitable, including to reflect a material change or significant event relating to the value of an investment, accrued but unpaid interest or dividends and/or prior distributions made to the Shareholders.

In addition to the amounts referenced in the immediately preceding paragraph, in respect of Class B Shares issued at a Subsequent Closing, the applicable Class B Shareholders will also be required to contribute an amount equal to the AIUS Fees that would have been paid in respect of such Class B Shares were such Class B Shares issued at the Initial Closing, plus Additional Amounts thereon. The amounts contributed pursuant to this paragraph shall be distributed to the Investment Manager.

Amounts contributed in respect of Additional Amounts will not reduce a Shareholder's unused Capital Commitment.

Amounts contributed in respect of Additional Amounts will not result in the issuance of additional Shares to the Investor in respect of the payments of such Additional Amounts.

Notwithstanding the foregoing, the Investment Manager may waive or otherwise modify the Additional Amounts

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payable in respect of Shares issued at Subsequent Closings occurring prior to October 1, 2020.

INVESTMENT PERIOD

The investment period of the Portfolio (the "Investment Period") will end on December 31, 2021.

TERM

The Portfolio will terminate on the sixth anniversary of the Initial Closing (the "Term"); *provided, however*, that the Investment Manager may extend the Term for two additional one-year periods in its sole discretion, and may further extend the Term with the consent of the Shareholders.

DRAW DOWNS

A Shareholder's unfunded Capital Commitments will generally be drawn down in installments pro rata based on Capital Commitments from the Shareholders, (each, a "Draw Down") as needed, upon 7 days' written notice (each, a "Draw Down Notice"). The initial Draw Down from each Shareholder will be for a minimum of $100,000.

AIUS FEE

The Portfolio will pay to the Investment Manager a fee for its services (the "AIUS Fee").

Class A Shares are not subject to the AIUS Fee.

Class B Shares will be subject to the AIUS Fee. During the Investment Period, the Portfolio will pay the Investment Manager, in its capacity as the Portfolio's investment manager, with respect to the Class B Shares, an AIUS Fee equal to 0.25% per annum of the Class B Shareholders' aggregate Capital Commitments. After the termination of the Investment Period, the Portfolio will pay the Investment Manager, in its capacity as the Portfolio's investment manager, with respect to the Class B Shares, an AIUS Fee equal to 0.25% per annum of the Class B Shareholders' aggregate Invested Capital.

"Invested Capital" means the amount invested in investments of Portfolio Entities including any proceeds reinvested in investments of Portfolio Entities less any distributions by the Portfolio attributable to a return of principal payments or a return of cost basis of investments.

Notwithstanding the foregoing, Class B Shareholders making a Capital Commitment of at least $100 million will bear an AIUS Fee equal to 0.20% per annum of the Shareholder's Capital Commitment; *provided, however*, the Investment Manager may, in its sole discretion, further reduce the AIUS Fee applicable to any Class B Shareholder making a Capital Commitment of at least $100 million.

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The AIUS Fee will be calculated and paid quarterly in arrears. The AIUS Fee will be prorated for any Capital Commitment that occurs other than as of the first day of a month.

Class A Shares and Class B Shares are not subject to any carried interest or other incentive fee, as applicable, that may be allocable or payable by the Portfolio to the Investment Manager.

The Investment Manager may receive fees separately from investors based on individual investment management agreements or other agreements particular to an investor (including following termination of any such agreement) or from additional classes (if any).

ORGANIZATIONAL, OFFERING EXPENSES

The Investment Manager will pay for the Portfolio's organizational and offering expenses, including but not limited to legal, accounting, filing, printing, postage, mailing, traveling, marketing and other organizational expenses, in each case, to the extent such expenses are essential to the start-up of the Portfolio. Ongoing operational expenses of the Portfolio will be borne by the Portfolio (See "Portfolio Expenses" below).

PORTFOLIO EXPENSES

The Portfolio will pay all expenses incurred by or on its behalf (each a, "Portfolio Expense," collectively, the "Portfolio Expenses") including, but not limited to, the following:

(i) all fees, costs and expenses attributable to any investment in any Portfolio Entities (including potential underlying investments or dispositions that are not consummated), such as expenses incurred in connection with identifying, structuring, negotiating, purchasing, refinancing, pledging, holding, hedging, monitoring, selling, disposing of or exchanging all or any portion of any underlying investment or potential underlying investment, including due diligence, travel, and other costs, and any break-up fees and other "broken deal" costs;

(ii) all costs associated with the maintenance of the Portfolio's books and records, the provision of audited and unaudited reports and any certifications thereof, the preparation and distribution of financial statements and tax returns, and all other tax, accounting and auditing costs and expenses;

(iii) all fees and expenses due to any professional advisors (including but not limited to legal,

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financial, accounting and consulting advisors), any lenders, investment banks, and other financing sources and any other third party vendors or service providers (including but not limited to the administrator), and fees incurred in connection with the maintenance of bank or custodian accounts (including physical and electronic custody and access services);

(iv) all costs of preparing and distributing to Shareholders checks, reports, and notices, and providing other information to Shareholders, all costs and expenses of investment or distribution managers retained by the Portfolio and all costs related to on-line Portfolio information access;

(v) any indemnity, litigation (including the cost of any investigation and preparation) or extraordinary expense (including any judgments or settlements paid in connection therewith), whether payable in connection with any litigation involving the Portfolio or otherwise, and all costs and expenses related to or in connection with liability and other insurance premiums payable by the Portfolio;

(vi) brokerage fees, placement or finder's fees (if any), and fees and expenses incurred in connection with any filing, registration, qualification, or exemption under any applicable laws or regulations;

(vii) taxes, fees or other governmental charges levied against the Portfolio, and all expenses incurred in connection with administrative proceedings;

(viii) any interest on borrowed money and other borrowing costs, including any costs or expenses incurred in connection with a credit facility (if any);

(ix) expenses incurred in connection with the preparation of amendments or incurred in connection with the winding up and liquidation of the Portfolio; and

(x) all costs associated with meetings with Shareholders or holding any meetings of Members.

To the extent the Portfolio co-invests alongside another vehicle managed by the Investment Manager or one of its affiliates, the Investment Manager will allocate expenses among such vehicles in a manner that the Investment

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Manager believes, in its discretion, to be fair and equitable.

OTHER FEES AND EXPENSES

In addition to the AIUS Fee and the Portfolio Expenses, the Shareholders will indirectly bear the expenses of any Portfolio Entity into which the Portfolio invests, which may include management fees as well as any performance-based compensation made or allocated to the Manager, or its affiliates, of such Portfolio Entity.

DISTRIBUTIONS

Net cash proceeds (not subject to recall or reinvestment) derived from the realization of underlying investments will be distributed to the Shareholders at such times as are determined in the reasonable judgment of the Investment Manager. The Investment Manager may aggregate distributions and distribute them periodically in an effort to minimize administrative costs. The Investment Manager will be entitled to withhold amounts from any distribution to create, in its discretion, appropriate reserves for expenses, liabilities and obligations of the Portfolio, as well as for any required tax withholdings. All cash distributions will be made in U.S. dollars.

Net proceeds in respect of any underlying investment will generally be distributed to the Shareholders participating in the applicable investment pro rata based on their respective participation in funding such investment.

Distributions may be made either by way of a dividend or a compulsory redemption of Shares.

There are circumstances under which distributions may be subject to recontribution to the Portfolio, including for reinvestment purposes. (See "Summary of Terms—Recontribution Obligations")

ANTICIPATED RETURNS

The Portfolio will target a net internal rate of return of 10 to 12% plus a full return of Capital Commitments.[*] The Portfolio anticipates that distributions will begin after the first anniversary of the Initial Closing.

NO VOLUNTARY REDEMPTIONS

The section of the Memorandum entitled "Summary of Terms—Redemptions" is excluded from the Memorandum for the purpose of the offering of Shares of the Portfolio. This "Summary of Terms—No Voluntary Redemptions"

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[*] The target returns presented herein are based on projections and assumptions which are inherently uncertain and do not necessarily represent the returns and values which might ultimately be realized. No representations are made as to the accuracy of the assumptions contained herein and there can be no assurances that actual events will not differ materially from those assumed. In the event any of the assumptions used herein do not prove to be true, the actual returns and values realized are likely to vary substantially from those estimated.

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section of the Supplement replaces and supersedes the section of the Memorandum entitled "Summary of Terms—Redemptions" in its entirety.

The Shareholders will have no right to voluntarily redeem all or any portion of their Shares during the Term of Portfolio.

Notwithstanding the foregoing, the Board of Directors may, in its sole discretion, compulsorily redeem all or any portion of a Shareholder's Shares in the Portfolio at any time, for any reason or no reason, with or without prior notice.

TRANSFERS

A Shareholder may not sell, assign or transfer (each, a "Transfer") all or any portion of its Shares without the prior written consent of the Investment Manager, which the Investment Manager may grant or withhold in its sole and absolute discretion. The Investment Manager may require one or both parties to the Transfer to pay all costs of the Portfolio, the Investment Manager and its affiliates in connection therewith.

Any Transfer may take place at a price less than the NAV of the Shareholder's Shares.

RECONTRIBUTION OBLIGATIONS

Any distributions by the Portfolio will be subject to recontribution to the Portfolio, for an indefinite period (including after the Term) to the extent necessary to fund any (i) indemnification or other obligations in respect of underlying investments, including commitment obligations; (ii) other indemnification obligations of the Portfolio; or (iii) other expenses or obligations related to the Portfolio.

In addition, distributions may be retained or recalled by the Portfolio for purposes of reinvestment.

CREDIT FACILITY

The Portfolio may borrow for cash management purposes. To facilitate such borrowings, the Portfolio may, among other things, enter into a credit facility with a service provider to the Portfolio or a third party credit institution (each a "Credit Facility").

SUCCESSOR FUNDS

The Investment Manager and its affiliates may form new funds or portfolios, including new commingled investment vehicles or managed accounts with the same principal investment objective and strategy as the Portfolio.

DEFAULT

A Shareholder that defaults in respect of its obligation pursuant any Draw Down Notice or its share of the AIUS Fee or other Portfolio expenses directly attributable to such

Shareholder will be in default (a "Defaulting Shareholder").

Unless the Investment Manager determines otherwise, the amount of such payment defaulted on will accrue interest commencing on the date such payment was due at a rate of 8% per annum. At the Investment Manager's option, exercisable in its sole and absolute discretion, the Portfolio will have the right, in addition to all other available remedies, to require the Defaulting Shareholder to (i) forego all distributions of future income or gain on Portfolio investments, but continue to be subject to losses or reductions in value on such Portfolio investments and Portfolio expenses and (ii) transfer its Shares to a new or existing Shareholder selected by the Investment Manager. The Investment Manager may compulsorily redeem the Shares of a Defaulting Shareholder. Shares of a Defaulting Shareholder that are compulsorily redeemed will be redeemed at a price equal to 75% of the NAV of such Defaulting Shareholder's Shares. In addition to the foregoing options, the Investment Manager may pursue and enforce all rights and remedies that it or the Portfolio may have under law or equity.

The Investment Manager may require a Defaulting Shareholder to be responsible for all fees and expenses, including, without limitation, attorneys' fees incurred as a result of the default. Such fees and expenses generally will be deducted from any net cash proceeds paid to the Defaulting Shareholder.

VALUATION

The Shares will be valued according to their NAV, as described in the Memorandum. The Investment Manager will provide each of the Shareholders with quarterly valuation reports with respect to the value of their Shares in the Portfolio, calculated in accordance with the Fund's Valuation Policy.

WINDING DOWN

The business of the Portfolio includes the realization and distribution of the Portfolio's assets to Shareholders during a wind down of the Portfolio's operations, after the expiration of the Portfolio's Term.

SIDE LETTERS

The Portfolio, and in certain cases the Investment Manager on behalf of the Portfolio, will have the discretion to waive or modify the application of, or grant special or more favorable rights with respect to, any provision of this Supplement, the Memorandum or any other Fund Document to the extent permitted by applicable law. To effect such waivers or modifications or the grant of any special or more favorable rights, the Portfolio may create Additional Classes or series of Shares for certain Shareholders that provide for,

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among other things, (i) greater transparency into the Portfolio, (ii) greater information than may be provided to other Shareholders, (iv) different fee or incentive compensation terms, (v) more favorable transfer rights and (vi) key-person notifications. Certain such waivers, modifications or grants of special or more favorable rights may be effected by, in certain cases, the Investment Manager, through agreements ("Side Letter Agreements"). Although certain Shareholders may invest in the Portfolio with different material terms, the Portfolio and the Investment Manager generally will only offer such terms if they believe other Shareholders in the Portfolio will not be materially disadvantaged.

TAXATION

Based on the Portfolio's organizational structure, anticipated methods of operation and features as described herein, the Portfolio generally does not expect to be subject to U.S. federal income tax on gains from trading in securities and commodities. In addition, interest from U.S. sources earned on bank deposits and "portfolio interest" as defined under the U.S. Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), are not subject to withholding for U.S. federal income tax. However, certain other income, including dividend income, certain "dividend equivalent payments" and certain other interest from U.S. sources, is subject to 30% withholding.

There can be no assurance that the U.S. or Cayman Islands tax laws will not be changed adversely with respect to the Fund or the Portfolio, or any of their shareholders, or that the Fund's or the Portfolio's income tax status will not be successfully challenged by such authorities.

Potential shareholders should consult their own advisors regarding tax treatment by the jurisdiction applicable to them. Shareholders should rely only upon advice received from their own tax advisors based upon their own individual circumstances and the laws applicable to them.

ERISA

Entities subject to the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA") may purchase Shares. Investment in Shares by entities subject to ERISA requires special consideration. Trustees or administrators of such entities are urged to carefully review the matters discussed in the Memorandum.

It is anticipated that the assets the Portfolio may, from time to time, be treated as "plan assets" (as defined in Section 3(42) of ERISA and any regulations promulgated thereunder). During all periods when the assets of the Portfolio are treated as plan assets, AIUS will manage the

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assets of such Portfolio in conformity with its responsibilities under ERISA.

Accordingly, all potential Shareholders should carefully read "ERISA Considerations" in the Memorandum.

REPORTS

The Investment Manager will provide each Shareholder with periodic reports of performance and will report the value of each Shareholder's capital account and information regarding the Portfolio's investments on at least a quarterly basis.

The Investment Manager will obtain on an annual basis audited financial statements for the Fund. Such audited financial statements will be prepared, at the election of the Investment Manager (consistent with applicable law) in accordance with U.S. generally accepted accounting principles ("GAAP") in effect on the date thereof, consistently applied. The Portfolio will use commercially reasonable efforts to provide such audited financial statements to each within 180 days after the end of each fiscal year or such later date as is permissible under applicable law.

The fiscal year (the "Fiscal Year") end of the Portfolio is December 31.

AUDITOR

Ernst & Young Ltd. The Auditor will prepare the Portfolio's financial statements in accordance with U.S. GAAP.

ADMINISTRATOR

Northern Trust Global Fund Services Cayman Limited. The Administrator will receive a quarterly fee equal to a percentage of the assets under management (the "AUM") of the Fund. Such rate will be determined based on a tiered structure, which varies based on total aggregated assets of the funds managed by the Investment Manager, including the Fund's AUM. For a smaller AUM, the rate would be higher whereas with a larger AUM, the rate would decrease.

The Portfolio will pay the fee and expenses of the Administrator. (See "Portfolio Expenses").

CUSTODIAN

The Northern Trust Company (the "Custodian") serves as the Portfolio's custodian pursuant to a Global Institutional Master Custody Agreement (the "Custody Agreement") by and between the Fund for the account of the Portfolio and the Custodian. The Fund's investments in Portfolio Entities are generally registered with the Custodian in the name of the Custodian on behalf of the Fund for the account of the Portfolio; *provided however,* investments in certain Portfolio

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Entities will be registered and held in the name of the Fund, as necessary. The Custodian is responsible for the safekeeping of the assets of the Fund for the account of the Portfolio which are actually delivered to and accepted by the Custodian.

The Fund, for the account of the Portfolio, may change custodians or utilize the services of other custodians without notice to the investors.

The Custodian will receive a quarterly fixed fee based on the total number of hedge fund transactions.

The Custodian's address is: The Northern Trust Company,
50 S. LaSalle Street, Chicago, IL 60603.

II. Investment Objective, Investment Strategy, Risk Management and Investment Restrictions

The Investment Objective and Investment Strategy

Investment Objective

The Portfolio's investment objective is to seek to generate attractive returns by investing in a range of credit opportunities. The Portfolio seeks to achieve its investment objective by allocating its capital primarily among a select group of experienced Managers, identified for their expertise in implementing various credit strategies and previous experience in credit downturns, through investments in Portfolio Entities managed by such Managers. In addition, the Portfolio may access Managers indirectly through structured notes, swaps or other derivative instruments paying a return linked to the performance of a Portfolio Entity.

Investment Strategy

The downturn of 2020 has led to significant repricing in assets, creating opportunities for credit investors to earn attractive expected returns, while helping companies get back to financial health or full potential. The Investment Manager has identified a range of opportunities that include, but are not limited to, liquidity-driven dislocations, stressed and distressed situations, and real estate credit investments in both public and private markets.

The investment horizon for these opportunities ranges from several months to several years. In the short-term, demand-supply imbalances have created a disconnect between the pricing and fair value of high-quality public securities. These are securities that the Investment Manager believes have attractive risk-adjusted returns in most economic scenarios and are expected to retrace to their long-term values in the near term. In the medium-term, viable, recovering companies or real estate operators may be in need of cash, and would benefit from lenders who can provide financing. Finally, in the long-term, some companies or real estate assets will experience financial stress and may need to undergo restructuring, leading to the need for skilled teams to assist with the process.

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To accommodate the range of investment horizons for these opportunities, the Portfolio will utilize a closed-end structure. The Portfolio will seek to invest in six to twelve Portfolio Entities to develop a diversified portfolio of credit investments. The Portfolio will seek diversification by considering a number of factors including:

- sub-asset class (including public and private corporate credit, structured credit, and real estate debt);
- geography (the Portfolio will focus investments predominantly in Portfolio Entities in United States, Europe and the United Kingdom);
- quality;
- capital structure;
- timeframe of opportunity;
- Manager; and
- underlying borrowers.

Anticipating that the market will go through some credit stresses, the Investment Manager believes it is valuable to focus on Managers with previous experience through credit downturns and working through any credit issues that may arise from individual borrowers.

The Portfolio's multi-year Term allows Portfolio Entities to pursue lending agreements and other opportunities with longer maturities, which are expected to generate an attractive return relative to more liquid investments. As Managers may apply prudent leverage to enhance the potential return, the Portfolio's multi-year Term will reduce the risk of Managers being forced to exit opportunities and unwind levered positions prematurely.

The Portfolio aims to generate an attractive risk adjusted return, derived primarily from capital appreciation, with interest income as a secondary source of return. The Portfolio intends to allocate its investments in Portfolio Entities as follows:

- 10%-50% to public corporate credit and multi-sector securitized credit;
- 25%-75% opportunistic credit;
- and 10%-40% to public and private real estate credit.

1. Public and Opportunistic Credit

- The Portfolio expects to invest in public and private credit, including leveraged loans, high yield bonds, securitized credit, crossover investment grade debt, below investment grade debt, unrated debt, special situations, and direct lending.
- Investments may include asset-backed securities ("ABS"), residential mortgage-based securities ("RMBS") and commercial mortgage-backed securities ("CMBS") as well as corporate credit and credit derivatives such as collateralized loan obligations ("CLOs") and credit default swaps ("CDS"). Other investments may

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include corporate bonds and loans, index and single name CDS. The positions will be both long and short, with shorts being both alpha-focused and for hedging.

- Some Managers may invest in the more liquid end of the distressed spectrum including opportunities which are driven by events such as litigations, liquidations, and restructurings of stressed or distressed companies, as well as structured credit, credit and equity, including post-reorg equity. The focus in more liquid sectors will be on mispriced assets and stressed capital structures in concentrated portfolios.

2. Public and Private Real Estate Credit

- The Portfolio will select Portfolio Entities that will provide broad execution in public and private real estate debt. These strategies include agency and non-agency CMBS, single asset/single borrower securities ("SASB"), and the acquisition and origination of private real estate debt secured by real estate assets.

- The focus in the more liquid sectors will be on dislocated and mispriced securities due to forced selling in the market. These types investments include pooled mortgages in the commercial mortgage back securities space which have experienced widened spreads due to illiquidity or asset level deficiencies. The single asset/single borrower strategy, or bond secured by a single asset or a small pool of assets owned by one borrower, would be considered as, much like the conduit CMBS products, SASB has experienced some widening and can be a more targeted solution. Freddie Mac K-Series bonds, or agency bonds, will also be considered as the current yields look more attractive than they have near term.

- On the private side, the focus will be on levered first mortgages, mezzanine loans, and real estate-related corporate debt. Commercial first mortgages target opportunities created by restrictions on banks making loans to development and transitional properties and will utilize leverage to enhance returns. Managers that provide mezzanine loans on properties offer unsecured debt senior to meaningful equity commitments. Managers that provide real estate-related corporate debt offer corporate loans secured by or related to real estate. The Portfolio will also invest in Portfolio Entities that seek to invest in undervalued or mispriced opportunities with a significant capital appreciation component (and may generally invest a material portion of their assets on an opportunistic basis). Such investments often require a longer horizon to unlock value, and include the acquisition of distressed debt (sub-performing and non-performing notes), event-driven situations, rescue financing and litigation claims.

The Investment Manager is responsible for selecting Managers and allocating the Portfolio's capital among them. The identity and number of Managers included in the Portfolio and the Portfolio's allocation of capital among them will change over time, subject to the investment restrictions below. The Portfolio is expected to be invested among six to twelve Portfolio Entities which employ the following strategies: Public Corporate, Securitized and Structured Credit, Opportunistic Credit, and Public and Private Real Estate Credit. The Investment Manager may withdraw from or invest in different Portfolio Entities without prior notice to, or the consent of, the Shareholders. In addition, the Portfolio may buy or sell interests in Portfolio Entities in secondary market transactions, although the Portfolio does not intend to use secondary market transactions as the primary method for allocating to or away from Portfolio Entities. Although the Investment Manager seeks to allocate Portfolio capital among Managers

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employing one or more of the strategies above, the Investment Manager may choose to deploy the Portfolio's capital in whatever investment strategies and weightings the Investment Manager deems appropriate. The Investment Manager may add to, delete from or modify the categories of investment strategies employed in the Portfolio in its discretion and one or more of the strategies described above may not be represented in the Portfolio at any given time. The Portfolio is not restricted from participating in any industry, market, strategy or investment, and the Investment Manager may alter or modify some or all of the Portfolio's investment strategies in light of available investment opportunities and prevailing economic and market conditions if the Investment Manager determines that such alterations or modifications are consistent with the Portfolio's investment objective, subject to what the Investment Manager considers an acceptable level of risk.

Managers have complete discretion to make investments for their respective Portfolio Entities consistent with the relevant investment advisory agreements, limited partnership agreements, memorandums and articles of association or other governing documents. Such agreements and governing documents generally allow the Managers to change the kinds of investments they make and their techniques for making investments if they believe that such changes are appropriate in view of the relevant investment objectives and the then-current or expected market, business or economic conditions.

Managers of Portfolio Entities are permitted to invest in a wide range of instruments and markets on a worldwide basis, including but not limited to: long and short positions in U.S. and non-U.S. equities, margin-traded positions, equity related instruments, fixed income and other debt-related securities, volatility related instruments, options, warrants, futures, commodities, currencies and currency forwards, over-the-counter ("OTC") and exchange-traded derivative instruments (such as swaps), securities that lack active public markets, repurchase and reverse repurchase agreements, preferred stocks, convertible bonds and other financial instruments. Further, when a Manager determines that such an investment strategy is warranted, such Manager generally may invest, without limitation, in cash and cash equivalents.

While the Portfolio seeks to achieve above-average returns it is also concerned with preservation of capital. The Investment Manager seeks to manage downside risk by combining strategies and Managers that have low correlations to each other as well as allocating to Managers that demonstrate strong commitment to risk management. The Portfolio is expected to be fairly concentrated in terms of number of Managers.

There are a number of Managers implementing credit investment strategies whose services are not generally available to the investing public. Such Managers often place stringent restrictions on the number of investors whose money they will manage. By investing with these and other Managers, the Portfolio seeks to provide Shareholders with access to the varied skills and expertise of such Managers which may not otherwise be available to investors, while at the same time attempting to lessen the risks and volatility associated with investing through any single fund. The Portfolio also enables Shareholders to avoid, to a significant extent, the high minimum investment requirements typically imposed on individual investors investing in privately offered funds directly. In addition, the Investment Manager may be able to obtain allocations to smaller or niche Managers that may have limited capacity and would not be available to individual investors. The Investment Manager may also engage in direct trading in connection with the liquidation of securities that have been distributed in kind to the Portfolio. For these purposes, the Investment Manager may invest in stock, options, futures, money market instruments, mutual funds and other investment companies. In addition, the Investment Manager may invest the Portfolio's cash balances in any instruments it deems appropriate. Any income

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earned from such investments will be reinvested by the Portfolio in accordance with the Portfolio's investment program or used to meet cash flow needs.

The business of the Portfolio includes the realization and distribution of the Portfolio's assets to existing Shareholders during a wind-down of the Portfolio's operations.

There can be no assurance that the Portfolio will achieve its objective or that the Portfolio will not incur losses. **Investors must be prepared to lose all or substantially all of their investment in the Portfolio.**

Leverage

Managers may leverage their trading (and in certain cases, at significant levels) through borrowings from banks and other lenders to leverage investments, utilize futures, forwards, swaps and other derivatives to acquire leverage, finance investments through repurchase agreements, total return swaps and options and trade securities and derivatives on margin.

The Portfolio may borrow to fund acquisitions of Portfolio Entities or working capital prior to a Draw Down (each, a "Draw Down Facility"), to cover any shortfall by a Defaulting Shareholder or for any other purposes as determined by the Investment Manager. Liabilities with respect to any such Draw Down Facility will be limited to the amount of any undrawn Capital Commitments. Any funds so borrowed pursuant to the Drawn Down Facility are expected to be repaid solely from subsequent Draw Downs. The Portfolio may be required to give security in connection with a Draw Down Facility including security over any undrawn Capital Commitments of Shareholders.

As of the date of this Supplement, the Portfolio does not intend to employ leverage in its investment activities, but this may change over time. The Investment Manager may in the future, however, leverage the Portfolio's investment in the Portfolio Entities by borrowing up to the amount of the undrawn Capital Commitments (determined as of the time of each such borrowing). However, the Portfolio is not obligated to maintain such a facility nor is any lender obligated to maintain or renew such facility. There can be no assurance that the Portfolio will be able to obtain (or maintain) financing for the purposes described above. Although the commitment amount of any credit facility to which the Portfolio is a party may represent only a portion of the Portfolio's value, virtually all of the Portfolio's assets may be required to be pledged to secure its obligations to a lender. The costs associated with any credit facility and the borrowings thereunder will be borne by the Portfolio.

The use of leverage increases risk and generates interest expense, but also may increase the investment return. For example, when a Manager is leveraged, a small increase or decrease in the value of the Manager's investments will result in a larger increase or decrease, respectively, in the net asset value of the Manager's investments than would otherwise be the case.

Investment Process

The Investment Manager's five stage investment process is multi-dimensional, iterative, and proactive.

The Investment Manager's longstanding relationships in the private equity, hedge fund, real estate and fixed income communities provides the Global Research Team with the opportunity to review a breadth of credit offerings ranging from single product emerging managers to longstanding multi-asset managers.

The Investment Manager's Global Research Team builds relationships with Managers well in advance of their fundraising. The Global Research Team actively maintains relationships with Managers so that the Investment Manager and its clients are well-positioned to obtain access to the wide range of managers. This approach also allows the Global Research team to continuously evaluate Managers so that the Investment Manager is well-informed when Managers begin fundraising.

Fund Screening

Each market sector (including fixed income, real estate, liquid alternatives) has a dedicated research team. The various research teams meet frequently to review new investment opportunities. Members of the research teams present a high-level investment summary regarding each Manager with whom they have met and whom they believe warrants a broader team review. The "Fund Summary" provides critical information about the Manager, strategy, team, performance, and terms and conditions of the Portfolio Entities. The research teams supplement this information through historical knowledge of the Manager and team. The research teams also discuss whether the strategy makes sense in the current market environment. The fund screening process also includes a preliminary assessment of the Manager's merits and concerns about the specific investment opportunity.

Preliminary Diligence

After a determination has been made by the research team to pursue an investment opportunity past the screening phase, a more in-depth review is led by the research analysts. This team is responsible for conducting the initial due diligence of the investment opportunity which is recorded in a set of meeting notes. The review typically examines the firm, strategy, track record, and team experience. The research analysts review the investment process to identify distinctive features that could provide the Manager with an investment edge. This allows the research team to determine the primary drivers of performance, including the key partners, the industries and strategies contributing to the performance, as well as other significant factors impacting the overall performance. The Investment Manager's research team also speaks with key industry members through performing on and off-sheet reference checks.

The preliminary diligence stage is focused on determining if a Manager is expected to meet the Investment Manager's due diligence standards and investment criteria. The research team focuses on the major areas of concern and determines if those concerns can be mitigated and would ultimately be acceptable risk(s).

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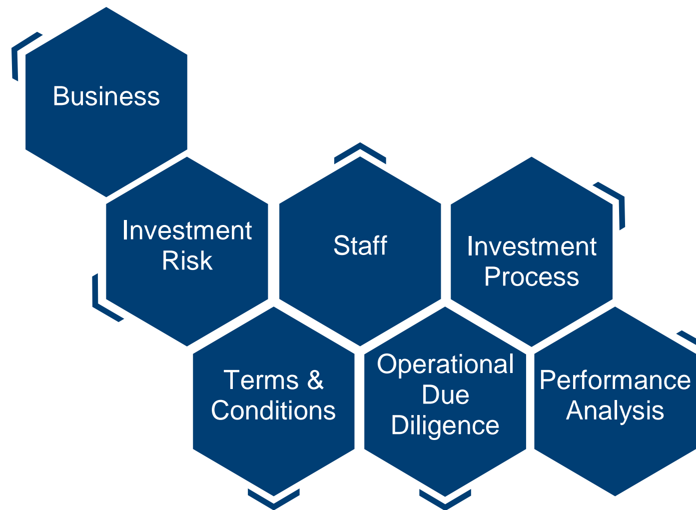
In-Depth Due Diligence; Terms and Legal Review

During the Investment Manager’s in-depth due diligence process, the research team evaluates the quality of the Manager’s investment process, including due diligence and decision-making processes. The research team reviews the Manager’s experience, skill level, and interpersonal skills. The research team also assesses the Manager’s compensation arrangements to determine if proper incentives are in place to encourage long tenure and to generate superior long-term performance.

The Investment Manager evaluates the Manager among a number of dimensions and applies a rating across seven factors:



In-depth diligence of a Portfolio Entity is recorded in a final, proprietary investment diligence report referred to as a Debrief Report. The Debrief Report also includes a business review of the Portfolio Entity's legal terms and conditions compared to industry peers. The research team's analysis is supplemented by independent due diligence from the Investment Manager's dedicated Operational Risk Solutions and Analytics (ORSA) team. The ORSA team performs a separate and thorough review of a Manager's administration, operational controls, valuation of assets, cybersecurity, and third-party vendors to help ensure the investment decisions are supported by strong firm policies and procedures. Upon completion of the Debrief Report and all ORSA analysis, the Portfolio Entity is presented to the respective research team's investment committee for approval. If an approved investment is proposed to be included in the Portfolio, it is presented to the Opportunistic Credit Portfolio Investment Committee for approval.

Portfolio Construction and Management

A team of senior professionals is responsible for selecting and sizing allocations to the highest conviction ideas across different asset classes for the Opportunistic Credit Portfolio. In constructing the Portfolio, the team takes into consideration the underlying exposures and fit of Managers, the market opportunities, desired fund characteristics, such as target return, risk and correlations to public markets, as well as terms and capacity of Managers.

After closing an investment, Investment Manager actively monitors its investments in Portfolio Entities to track the Portfolio's execution of its investment objectives. The Investment Manager tracks performance and overall portfolio statistics, including diversification, risk and performance relative to targets; holds periodic meetings with managers; and attends annual meetings. The Investment Manager strives to develop close relationships with Managers' investment and administrative professionals to obtain information about business practices and operational capabilities.

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Investment Restrictions

The Portfolio will adhere to the following investment restrictions:

(i) no more than 40% of aggregate Capital Commitments may be allocated to any one Manager;

(ii) no more than 20% of aggregate Capital Commitments may be invested in other funds whose principal investment objective includes investing in the funds of other portfolio managers;

(iii) no more than 10% of aggregate Capital Commitments may be allocated to Managers affiliated with the Investment Manager to the extent such allocations are permitted by applicable law (including ERISA); and

(iv) the Portfolio may not take legal or management control of the issuer of any of its underlying assets.

The restrictions set forth in (i) through (iii) above will be based on cost and will apply to any investment at the time the investment is made. Where any restriction is breached, the Investment Manager must ensure that immediate corrective action is taken. For the avoidance of doubt, no breach will be deemed to have occurred where there is a change in the percentage invested as a result of appreciation or depreciation in the value of the investments or by reason of the receipt of any right, bonus or benefit in the nature of capital or any other action affecting every holder of the relevant investment. However, the Investment Manager expects to have regard to the investment restrictions when considering changes in the investment portfolio of the Portfolio.

The descriptions set forth in this Supplement of specific strategies in which the Portfolio may engage or specific investments the Portfolio may make should not be understood to limit in any way the Portfolio's investment activities. Except as otherwise expressly described herein, the Portfolio may engage in any investment strategy and make any investment. The Portfolio's investment program is speculative and entails substantial risks. There can be no assurance that the investment objectives of the Portfolio will be achieved. (See "Certain Risk Factors" in the Memorandum and "Additional Risk Factors" below.)

III. Additional Risk Factors

Limited Operating History. Even though the investment professionals of the Investment Manager have been using investment strategies similar to the investment strategies described herein in other private investment funds and accounts for several years, the Portfolio only has limited operating history upon which prospective Shareholders of the Portfolio can evaluate its anticipated performance. There can be no assurance that the Portfolio or the Investment Manager will achieve results comparable to those the investment professionals have achieved in the past.

Draw Downs. The failure of any Shareholder to contribute any portion of its Capital Commitment on a timely basis may adversely affect the Portfolio's access to capital and, among other things, the ability of the Portfolio to structure or consummate investments. Shareholders that fail to contribute their Capital Commitment on a timely basis are subject to significant default remedies and penalties as set forth in this Supplement.

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Risks Associated With Investing in Portfolio Entities

Fee Structure. The Portfolio will utilize a so-called "fund-of-funds" or "multi-manager" investment strategy, pursuant to which its assets will be invested with Managers, generally by investments in Portfolio Entities. Depending on which Class of Shares is held by a Shareholder, investment management fees will be charged to the Portfolio by both the Investment Manager and the Managers. As a result, the Portfolio, and indirectly an investor in the Portfolio, may bear multiple investment management fees that in the aggregate will exceed the fees and allocations that would typically be borne by a direct investment in a fund or account managed by a Manager. The Manager (or its affiliates) may also charge performance-based compensation (in addition to the investment management fees), which compensation will also be indirectly borne by the Shareholders.

Overlapping Investment Strategies. The Managers invest wholly independently of one another and may at times hold economically offsetting positions or cause the Portfolio to be concentrated in certain positions. To the extent that the Managers do, in fact, hold economically offsetting positions, the Portfolio, considered as a whole, cannot achieve any gain or loss despite incurring expenses and a Manager, potentially receiving performance-based compensation. If the Portfolio is concentrated in a position, as a result of two or more Managers holding the same position, the risks associated with such investment will be magnified.

Style Drift. The Investment Manager primarily relies on information provided by Managers in assessing a Manager's defined investment strategy, the underlying risks of such a strategy and, ultimately, determining whether, and to what extent, it will allocate the Portfolio's assets to particular Managers. "Style drift" is the risk that a Manager may deviate from its stated or expected investment strategy. Style drift can occur abruptly if a Manager believes it has identified an investment opportunity for higher returns from a different approach (and the Manager disposes of an interest quickly to pursue this approach) or it can occur gradually, such as if, for instance, a "value"-oriented Manager gradually increases a Portfolio Entity's investments in "growth" stocks. Style drift can also occur if a Manager focuses on factors it had deemed immaterial in its offering documents, such as particular statistical information or returns relative to certain benchmarks. Additionally, style drift may result in a Manager pursuing investment opportunities in an area in which it has a competitive disadvantage or that is outside the Manager's area of expertise (*e.g.*, a large-cap Manager focusing on small-cap investment opportunities). Moreover, style drift poses a particular risk for multiple-manager structures since, as a consequence, the Portfolio may be exposed to particular markets or strategies to a greater extent than was anticipated by the Investment Manager when it assessed the portfolio's risk-return characteristics and allocated assets to a Manager (and which may, in turn, result in overlapping investment strategies among various Managers, as discussed above under "Overlapping Investment Strategies").

Newly Formed Portfolio Entities. From time to time, the Portfolio may invest in newly or recently formed Portfolio Entities. There may be no or limited track record based upon which the Investment Manager can evaluate an investment in newly or recently formed Portfolio Entities. While these entities may be recently formed, the Managers will generally have strong investment experience and a demonstrated investment history. However, there can be no assurance that the Portfolio Entities or the Manager will achieve results comparable to those that the investment professionals of the Manager have achieved in the past.

Delays in Investment in Portfolio Entities. The Portfolio may make additional investments in a Portfolio Entity only at certain times pursuant to limitations set forth in the

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governing documents of such Portfolio Entity. In any such event, pending the investment in additional Portfolio Entities, or the agreement of the existing Portfolio Entities to accept additional subscriptions from the Portfolio, initial or additional subscriptions made by Shareholders may be temporarily invested in short-term investments or cash (including demand deposit balances). Under such circumstances, continued purchases of Shares by new Shareholders will dilute the participation of existing Shareholders in the Portfolio Entities in which the Portfolio is invested.

Turnover. The Portfolio's activities involve investment in the Portfolio Entities, which may invest on the basis of short-term market considerations. The turnover rate within the Portfolio Entities may be significant, potentially involving substantial brokerage commissions and fees. The Portfolio will have no control over this turnover. In addition, the withdrawal of the Portfolio from a Portfolio Entity could involve expenses to the Portfolio under the terms of the Portfolio's investment.

Portfolio Entities' Compensation Not Correlated to the Portfolio's Overall Performance. A Manager will be compensated based on the performance of its Portfolio Entity. Consequently, a particular Manager may receive incentive compensation in respect of its Portfolio Entity's performance during a period when the Portfolio's overall capital depreciated.

Limited Information Regarding Managers; Estimates and Valuations from Managers. Although the Investment Manager receives information from prospective Managers regarding such Managers' historical performance, exposures and investment strategy, in most cases the Investment Manager will have little or no means of independently verifying the information supplied to it by such Managers and will rely in large part on the limited information provided to it by such Managers.

In performing its risk management, manager evaluation and manager review analysis, the Investment Manager may be limited by the availability of data provided by the Managers. The Investment Manager will endeavor to conduct the due diligence analyses it deems necessary in order for it to be able to determine whether to make an investment in a Portfolio Entity. In some cases, the Investment Manager may not be able to perform the analyses referred to in this Supplement because of limited information provided by the Managers. In addition, there can be no assurance that the due diligence by the Investment Manager will be sufficient to detect operational issues or problems in connection with a Manager and/or Portfolio Entity, and the information received may not always be complete or accurate. Accordingly, it may not be possible for the Investment Manager to uncover problems, including fraudulent activity that may be perpetrated by one or more Managers or Portfolio Entities. (See also "Misconduct or Bad Judgment of Managers" below.)

With respect to current information, the Investment Manager has no ability in most cases to assess the accuracy of the valuations received from a Manager. Furthermore, interests in a Portfolio Entity generally are valued in accordance with the methods provided by the instruments governing such Portfolio Entity. These valuations may be provided by a Manager to the Portfolio Entity based on the interim unaudited financial records of such Portfolio Entity and, therefore, are subject to adjustment (upward or downward) upon the auditing of such financial records. After a Shareholder redeems, subsequent adjustments to valuations of one or more Portfolio Entities may occur and there is a risk that such Shareholder may receive an amount upon redemption which is greater or less than the amount such Shareholder would have been entitled to receive on the basis of the adjusted valuation. In the event the amount is greater

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than the amount such Shareholder would have been entitled to receive, the remaining Shareholders will generally bear the risk of any such overpayment.

Certain securities in which the Managers invest may not have a readily ascertainable market price. The net asset values received by the Investment Manager from such Managers typically will be estimates only, subject to revision through the end of each underlying Portfolio Entity's annual audit. Revisions to the Portfolio's gain and loss calculations will be an ongoing process, and no appreciation or depreciation figure can be considered final until the Portfolio's annual audit is completed.

Proprietary Investment Strategies. A Manager may use proprietary investment strategies that are based on considerations and factors that are not fully disclosed to the Investment Manager or the Portfolio. These strategies may involve risks under some market conditions that are not anticipated by the Manager, the Investment Manager or the Portfolio. The Managers may use investment strategies that differ from those typically employed by traditional managers of portfolios of stocks and bonds. The strategies employed by the Managers may involve significantly more risk and higher transaction costs than more traditional investment methods. The Portfolio will seek to reduce these risks by spreading the investments of the Portfolio among a variety of different Managers using investment strategies with returns that are not expected to be highly correlated with one another. However, it is possible that the performance of the Managers may be closely correlated in some market conditions, resulting (if those returns are negative) in significant losses to the Portfolio and its Shareholders.

Misconduct or Bad Judgment of Managers. It will be difficult, if not impossible, for the Investment Manager to protect the Portfolio from the risk of Manager fraud, misrepresentation, material strategy alteration or poor judgment. Although Managers are required to adhere to the offering documents for the respective Portfolio Entities, the Investment Manager cannot control the investments made by a Manager. Further, when the Portfolio invests in a Portfolio Entity, it does not have custody of the assets of such Portfolio Entity. Therefore, there is always the risk that the personnel associated with such Portfolio Entity could abscond with the Portfolio Entity's securities or funds (or both), resulting in losses to the Portfolio.

Liquidity Mismatch. Although the Investment Manager expects to focus on moderately liquid Portfolio Entities, the Portfolio may have limited rights pursuant to which it may withdraw, transfer or otherwise liquidate its investments in Portfolio Entities. The Portfolio may incur withdrawal charges or fees in connection with withdrawing investments in Portfolio Entities that may result in a significant expense to the Portfolio. The Portfolio's liquidity terms may allow shorter withdrawal notice periods and more frequent withdrawals than the liquidity terms applicable to Portfolio Entities. For example, the Portfolio may invest in a Portfolio Entity that is subject to a commitment period that exceeds the Portfolio's liquidity terms, if, at the time the Portfolio made the investment in the Portfolio Entity, the Investment Manager believed the investment could be managed in the context of the Portfolio's anticipated liquidity needs.

Indemnification, Withdrawal Adjustments, Clawbacks and Other Potential Legal Obligations With Respect to Proceeds Received from Portfolio Entities. Subsequent to its withdrawal from a Portfolio Entity (whether to fund withdrawals or reallocate assets), the Portfolio may have indemnification or reimbursement obligations to a Portfolio Entity that survive beyond its withdrawal and exceed any unpaid holdback, with respect to liabilities, expenses or other adjustments to the withdrawal value that relate to the period during which the Portfolio was invested in the Portfolio Entity (or with respect to a partial withdrawal, that portion that has been withdrawn). A reimbursement obligation could arise or be asserted, or an

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agreement or compromise reached, for example, based on the terms of the governing documents of the Portfolio Entity, applicable law, litigation or other less formal dispute resolution processes (each, a "Reimbursement Claim"). The Portfolio also may be subject to a Reimbursement Claim if the governing documents of a Portfolio Entity require that the Portfolio be subject to a "clawback" in the event of an overpayment of withdrawal proceeds or as a result of bankruptcy proceedings involving a Portfolio Entity.

ERISA Plan Assets Status of the Portfolio and the Portfolio Entities. The assets of the Portfolio and a Portfolio Entity may, from time to time, be treated as "plan assets" (as defined under Section 3(42) of ERISA and any regulations promulgated thereunder) of those Shareholders that are subject to ERISA. In such event, the Investment Manager and the relevant Managers would each be a fiduciary with respect to each such Shareholder. In addition, in the event that the assets of a Portfolio or a Portfolio Entity were treated as "plan assets" for purposes of ERISA, ERISA may impose certain limitations on the operation of the Portfolio or a Portfolio Entity. Such limitations could result in the inability of the Portfolio or a Portfolio Entity to participate in certain investments or conduct business with certain counterparties. Accordingly, in the event that the assets of the Portfolio or a Portfolio Entity are treated as "plan assets" for purposes of ERISA, ERISA could restrict the activities of the Portfolio or Portfolio Entity and, as a result, the Portfolio or Portfolio Entity may not be able to take advantage of certain investment opportunities, could have a different portfolio and could have a lower rate of return than if it were not subject to ERISA.

Investment-Related Risks

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

Debt Securities. Debt securities of all types of issuers may have speculative characteristics, regardless of whether they are rated. The issuers of such instruments (including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal in accordance with the terms of the obligations.

Dealer Market Making

The value of the Portfolio Entities' fixed-income investments will be affected by general fixed income market conditions, such as the volatility and liquidity of the fixed income market, which are affected by the ability of dealers to "make a market" in fixed-income investments. In recent years, the market for bonds has significantly increased while dealer inventories have significantly decreased, relative to market size. This reduction in dealer inventories may be attributable to regulatory changes, such as capital requirements, and is expected to continue. As dealers' inventories decrease, so does their ability to make a market (and, therefore, create liquidity) in the fixed income market. Especially during periods of rising interest rates, this could result in greater volatility and illiquidity in the fixed income market, which could impair the Portfolio Entities' profitability or result in losses.

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Interest Rate Risk

Changes in interest rates can affect the value of the Portfolio Entities' investments in fixed-income instruments. Increases in interest rates may cause the value of the Portfolio Entities' debt investments to decline. The Portfolio Entities may experience increased interest rate risk to the extent it invests, if at all, in lower-rated instruments, debt instruments with longer maturities, debt instruments paying no interest (such as zero-coupon debt instruments) or debt instruments paying non-cash interest in the form of other debt instruments.

Prepayment Risk

The frequency at which prepayments (including voluntary prepayments by the obligors and accelerations due to defaults) occur on debt instruments will be affected by a variety of factors including the prevailing level of interest rates and spreads as well as economic, demographic, tax, social, legal and other factors. Generally, obligors tend to prepay their fixed-rate obligations when prevailing interest rates fall below the coupon rates on their obligations. Similarly, floating rate issuers and borrowers tend to prepay their obligations when spreads narrow.

In general, "premium" securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" securities (securities whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since many fixed-rate obligations will be discount instruments when interest rates and/or spreads are high, and will be premium instruments when interest rates and/or spreads are low, such debt instruments may be adversely affected by changes in prepayments in any interest rate environment.

The adverse effects of prepayments may impact the Portfolio Entities' portfolios in two ways. First, particular investments may experience outright losses, as in the case of an interest-only instrument in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that the Managers may have constructed for these investments, resulting in a loss to the Portfolio Entities' overall portfolios. In particular, prepayments (at par) may limit the potential upside of many instruments to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

Zero-Coupon and Deferred Interest Bonds

Zero-coupon bonds and deferred interest bonds are debt obligations issued at a significant discount from face value. The original discount approximates the total amount of interest the bonds will accrue and compound over the period until maturity or the first interest accrual date at a rate of interest reflecting the market rate of the security at the time of issuance. While zero-coupon bonds do not require the periodic payment of interest, deferred interest bonds generally provide for a period of delay before the regular payment of interest begins. Such investments experience greater volatility in market value due to changes in interest rates than debt obligations that provide for regular payments of interest.

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High-Yield

Bonds or other fixed-income securities that are "higher yielding" (including non-investment grade) debt securities are generally not exchange-traded and, as a result, these securities trade in the OTC marketplace, which is less transparent and has wider bid/ask spreads than the exchange-traded marketplace. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions, which could lead to the issuer's inability to meet timely interest and principal payments. High-yield securities are generally more volatile and may or may not be subordinated to certain other outstanding securities and obligations of the issuer, which may be secured by substantially all of the issuer's assets. High-yield securities may also not be protected by financial covenants or limitations on additional indebtedness. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities may be highly leveraged and may not have available to them more traditional methods of financing. In addition, the Portfolio Entities may invest in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments.

The Portfolio Entities may invest in obligations of issuers that are generally trading at significantly higher yields than had been historically typical of the applicable issuer's obligations. Such investments may include debt obligations that have a heightened probability of being in covenant or payment default in the future or that are currently in default and are generally considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or other payments. Typically such workout or bankruptcy proceedings result only in partial recovery of cash payments or an exchange of the defaulted security for other debt or equity securities of the issuer or its affiliates, which may in turn be illiquid or speculative.

Corporate Debt

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

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Mezzanine Debt

Mezzanine debt is typically junior to the obligations of a company to senior creditors, trade creditors and employees. The ability of the Portfolio Entities to influence a company's affairs, especially during periods of financial distress or following an insolvency, will be substantially less than that of senior creditors. Mezzanine debt instruments are often issued in connection with leveraged acquisitions or recapitalizations in which the issuers incur a substantially higher amount of indebtedness than the level at which they had previously operated. Default rates for mezzanine debt instruments have historically been higher than for investment-grade instruments. In the event of the insolvency of a portfolio company of the Portfolio Entities or a similar event, the Portfolio Entities' debt investments therein will be subject to fraudulent conveyance, subordination and preference laws.

Stressed Debt

Stressed issuers are issuers that are not yet deemed distressed or bankrupt and whose debt securities are trading at a discount to par, but not yet at distressed levels. An example would be an issuer that is in technical default of its credit agreement, or undergoing strategic or operational changes, which results in market pricing uncertainty. The market prices of stressed and distressed instruments are highly volatile, and the spread between the bid and the ask prices of such instruments is often unusually wide.

Non-Performing Nature of Debt

Certain debt instruments may be non-performing or in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to such debt instruments.

Troubled Origination

When financial institutions or other entities that are insolvent or in serious financial difficulty originate debt, the standards by which such instruments were originated, the recourse to the selling institution, or the standards by which such instruments are being serviced or operated may be adversely affected.

Sovereign Debt

Several factors may affect (i) the ability of a government, its agencies, instrumentalities or its central bank to make payments on the debt it has issued ("Sovereign Debt"), including securities that the Managers believe are likely to be included in restructurings of the external debt obligations of the issuer in question, (ii) the market value of such debt and (iii) the inclusion of Sovereign Debt in future restructurings, including such issuer's (x) balance of trade and access to international financing, (y) cost of servicing such obligations, which may be affected by changes in international interest rates, and (z) level of international currency reserves, which may affect the amount of non-U.S. exchange available for external debt payments. Significant ongoing uncertainties and exposure to adverse conditions may undermine the issuer's ability to make timely payment of interest and principal, and issuers may default on their Sovereign Debt.

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Equitable Subordination

Under common law principles that in some cases form the basis for lender liability claims, if a lender (i) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called "equitable subordination"). If a Portfolio Entity engages in such conduct, such Portfolio Entity may be subject to claims from creditors of an obligor that debt held by such Portfolio Entity should be equitably subordinated.

Quantitative Analysis

Quantitative Model Risk and Risk Management Danger

There can be no assurance that the models used by the Managers will continue to be viable. The use of a model that is not viable or not completely viable could, at any time, have a material adverse effect on the performance of the Portfolio Entities. There can be no assurance that the Portfolio Entities will achieve their investment objectives or that the models (even if completely or partially viable) will continue to further or ultimately be capable of furthering the Portfolio Entities' investment objectives.

In addition, given that the systems can execute trades autonomously, undesired results may only be detected after the fact, perhaps after a significant number of transactions have occurred.

Risk management techniques are based in part on the observation of historical market behavior, which may not predict market divergences that are larger than historical indicators. Also, information used to manage risks may not be accurate, complete or current, and such information may be subject to misinterpretation. In the complex environment in which the Managers operate, effective risk management depends upon many factors, not all of which may be properly identified, and effective assessment, analysis, process creation, control or treatment of risks could be difficult to implement. For the sake of clarity and without limitation, though losses arising from quantitative model risks could adversely affect the Portfolio Entities' performance, such losses would likely not constitute reimbursable trade errors under the Managers' policies or the relevant investment advisory agreement.

At times, the Managers may manually override or shut down the operations of a quantitative model. This would generally be done in an effort to mitigate the damage from a deteriorating or malfunctioning model or a model that is reacting negatively to unforeseen market conditions. Such an override or intervention could result in greater losses than would be the case if there had been no intervention and/or could result in the model being overridden or inactive at a time when the model would have achieved gains for the portfolio.

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Obsolescence Risk

The Portfolio Entities are unlikely to be successful unless the assumptions underlying the models are realistic and either remain realistic and relevant in the future or are adjusted to account for changes in the overall market environment. If such assumptions are inaccurate or become inaccurate and are not promptly adjusted, it is likely that profitable trading signals will not be generated. If and to the extent that the models do not reflect certain factors, and the Managers do not successfully address such omission through its testing and evaluation and modify the models accordingly, major losses may result. The Managers will continue to test, evaluate and add new models, as a result of which the existing models may be modified from time to time. Any modification of the models or strategies will not be subject to any requirement that Shareholders receive notice of the change or that they consent to it. There can be no assurance as to the effects (positive or negative) of any modification on the Portfolio Entities' performance. For the sake of clarity and without limitation, though losses arising from obsolescence risks could adversely affect the Portfolio Entities' performance, such losses would likely not constitute reimbursable trade errors under the Managers' policies or the relevant investment advisory agreement.

Crowding/Convergence

There is significant competition among quantitatively-focused managers and the ability of the Managers to deliver returns that have a low correlation with the broader global markets and other hedge funds is dependent on their ability to employ models that are simultaneously profitable and differentiated from those employed by other managers. To the extent that the Managers are not able to develop sufficiently differentiated models, the Shareholders' investment objectives may not be met, irrespective of whether the models are profitable in an absolute sense. In addition, to the extent that the Managers' models come to resemble those employed by other managers, the risk that a market disruption that negatively affects predictive models will adversely affect the Portfolio Entities 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. For the sake of clarity and without limitation, though losses arising from crowding/convergence risks could adversely affect the Portfolio Entities' performance, such losses would likely not constitute reimbursable trade errors under the Managers' policies or the relevant investment advisory agreement.

Risk of Programming and Modeling Errors

The research and modeling process engaged in by the Managers is extremely complex and involves financial, economic, econometric and statistical theories, research and modeling; the results of that process must then be translated into computer code. Although the Managers seek to hire individuals skilled in each of these functions and to provide appropriate levels of oversight, 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 raise the chances that the finished model may contain an error. For the sake of clarity and without limitation, though losses arising from programming and modeling errors could adversely affect the Portfolio Entities' performance, such losses would likely not

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constitute reimbursable trade errors under the Managers' policies or the relevant investment advisory agreement.

Involuntary Disclosure Risk

The ability of a Manager to achieve its investment goals for the Portfolio Entities is dependent in large part on its ability to develop and protect models and proprietary research. The models and proprietary research and the Models and Data are largely protected by the Managers through the use of policies, procedures, agreements and similar measures designed to create and enforce robust confidentiality, non-disclosure and similar safeguards. However, aggressive position-level public disclosure obligations (or disclosure obligations to exchanges or regulators with insufficient privacy safeguards) could lead to opportunities for competitors to reverse-engineer the Managers' models, and thereby impair the relative or absolute performance of the Portfolio Entities.

Proprietary Trading Methods

Because the trading methods employed by the Managers on behalf of the Portfolio Entities are proprietary to the Managers, a Shareholder will not be able to determine any details of such methods or whether they are being followed.

Technical Trading Strategies

The buy and sell signals generated by certain strategies of the Portfolio Entities are not based on any analysis of fundamental supply and demand factors, general economic factors or anticipated world events but generally upon factors such as studies of actual daily, weekly and monthly price fluctuations, volume variations, changes in open interest and correlations and variance measures. The profitability of any technical trading strategy depends upon occurrence in the future of major price moves or trends in the instruments traded. In the past there have been periods without discernible trends and presumably similar periods will occur in the future. The best trading strategy will not be profitable if there are no trends of the kind it seeks to follow. In addition, a technical trading strategy may be profitable for a period of time, after which the strategy fails to detect correctly any future price movements. Accordingly, technical traders often modify or replace their strategy on a periodic basis. Any factor that may lessen the prospect of major trends in the future (for example, as increased governmental control of, or participation in, the markets) may reduce the prospect that the strategy will be profitable. Any factor that would make it more difficult to execute trades at the strategy's signal prices, such as a significant lessening of liquidity in a particular market, also would be detrimental to profitability.

Spread Trading

A part of a Manager's strategy may involve spread positions between two or more securities positions. To the extent the price relationships between such positions remain constant, no gain or loss on the positions will occur. Such positions, however, do entail a substantial risk that the price differential could change unfavorably, thus causing a loss to the spread position. A Manager's strategy also may involve arbitraging among two or more securities. This means, for example, that the Managers may cause the Portfolio Entities to purchase (or sell) securities (on a current basis) and take offsetting positions in the same or

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related securities. To the extent the price relationships between such positions remain constant, no gain or loss on the positions will occur. These offsetting positions entail substantial risk that the price differential could change unfavorably causing a loss to the position. Moreover, the arbitrage business is extremely competitive, and many of the major participants in the business are large investment banking firms with substantially greater financial resources, larger research staffs and more investment professionals than will be available to the Managers. Arbitrage activity by other larger firms may tend to narrow the spread between the price at which the Managers may cause the Portfolio Entities to purchase a security and the price the Managers expect that the Portfolio Entities will receive upon consummation of a transaction.

Model and Data Risk

The Managers will rely heavily on quantitative and systematic models (both proprietary models developed by the Managers and those supplied by third parties) and information and data supplied by third parties ("Models and Data"). Models and Data can be used to construct sets of transactions and investments, to value investments or potential investments (whether for trading purposes, or for the purpose of determining the net asset value of the Portfolio Entities), to provide risk management insights and to assist in hedging the Portfolio Entities' exposure.

When Models and Data prove to be incorrect, misleading or incomplete, any decisions made in reliance thereon expose the Portfolio Entities to potential risks. For example, by relying on Models and Data, the Managers may be induced to buy certain investments at prices that are too high, to sell certain other investments at prices that are too low, or to miss favorable opportunities altogether. Similarly, any hedging based on faulty Models and Data may prove to be unsuccessful.

All models rely on correct market data inputs. Because the Managers' models are usually constructed based on, or employ, historical or current market data supplied by third parties, the success of relying on Models and Data may depend heavily on the accuracy and reliability of the supplied data, which can contain errors.

For the sake of clarity and without limitation, though Model and Data risks could adversely affect the Portfolio Entities' performance, losses that arise as a result of the use of Models and Data likely would not constitute reimbursable trade errors under the Managers' policies or the relevant investment advisory agreement.

Self-Trades

The Managers utilize both traditional, fundamental analysis as well as model and program-driven algorithmic investment processes. These two investment processes are operated separately and independently; as a result, at times, trade orders that are offsetting positions may be placed for a single client at the same time, and it is possible that some of these may be filled against each other. While the Managers have policies and procedures intended to reduce the chances of "self-trades" occurring, it is likely that they will occur from time to time. Historically, regulators and self-regulatory organizations have typically held that

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self-trades are presumptively manipulative and, while the Managers would attempt to demonstrate that any self-trades involving the Portfolio Entities are inadvertent and not manipulative, there is a risk that an exchange or another regulator would commence an action against the Managers.

Correlation Risk

The Portfolio Entities may be exposed to correlated risks. These occur when funds and other investors hold similar positions and employ similar strategies, resulting in intensified risks leading to potential cascading loss in times of market stress.

Quantitative traders can be particularly susceptible to this type of correlation risk as a result of convergence in their automated trading algorithms and positions held. The high leverage and hedging techniques that many arbitrage-driven quantitative hedge fund managers use can further magnify the effects of correlation risk.

ABS and MBS Generally. The investment characteristics of ABS and mortgage-backed securities ("MBS") differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that the principal may be prepaid at any time because the underlying loans or other assets generally may be prepaid at any time.

ABS and MBS Subordinated Securities

Investments in subordinated MBS and ABS involve greater credit risk of default than the senior classes of the issue or series. Default risks may be further pronounced in the case of MBS and ABS secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying loans. Certain subordinated securities absorb all losses from default before any other class of securities is at risk, particularly if such securities have been issued with little or no credit enhancement or equity. Such securities, therefore, possess some of the attributes typically associated with equity investments.

Commercial MBS

Mortgage loans on commercial properties often are structured so that a substantial portion of the loan principal is not amortized over the loan term but is payable at maturity and repayment of the loan principal thus often depends upon the future availability of real estate financing from the existing or an alternative lender and/or upon the current value and salability of the real estate. Therefore, the unavailability of real estate financing may lead to default.

Most commercial mortgage loans underlying MBS are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related MBS are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of MBS may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed in lieu of foreclosure) of the mortgage encumbering the

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property and subsequent liquidation of the property. Foreclosure can be costly and delayed by litigation and/or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks, and governmental disclosure requirements with respect to the condition of the property may make a third party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to the related MBS. Revenues from the assets underlying such MBS may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court-appointed receiver to control collateral cash flow.

ABS

ABS are not secured by an interest in the related collateral. Credit card receivables, for example, are generally unsecured and the debtors are entitled to the protection of a number of U.S. federal and state consumer loan laws, many of which give such debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. Most issuers of ABS backed by automobile receivables permit the servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related ABS. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the ABS may not have a proper security interest in all of the obligations backing such ABS. Therefore, there is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor.

The collateral supporting ABS is of shorter maturity than certain other types of loans and is less likely to experience substantial prepayments. ABS are often backed by pools of any variety of assets, including, for example, leases, mobile home loans and aircraft leases, which represent the obligations of a number of different parties and use credit enhancement techniques such as letters of credit, guarantees or preference rights. The value of an ABS is affected by changes in the market's perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement.

RMBS

Holders of RMBS bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans secured by one to four family residential mortgage loans. Such loans may be prepaid at any time. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity, although such loans may be securitized by government agencies and the securities issued are guaranteed. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including

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general economic conditions and those in the geographic area where the mortgaged property is located, the terms of the mortgage loan, the borrower's "equity" in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

Investments in RMBS may experience losses or reduced yield if, for example, (i) the borrower of an underlying residential mortgage loan defaults or is unable to make payments, (ii) the underlying residential mortgage loans are prepaid, (iii) there is a general decline in the housing market or (iv) violations of particular provisions of certain U.S. federal laws by an issuer of RMBS limit the ability of the issuer to collect all or part of the principal of or interest on the related underlying loans.

CDOs. There are a variety of different types of CDOs, including CDOs collateralized by trust preferred securities and asset-backed securities and CDOs collateralized by corporate loans and debt securities called CLOs. CDOs may issue several types of securities, including, without limitation, CDO and CLO equity, multi-sector CDO equity, trust preferred CDO equity and CLO debt. CDOs are subject to credit, liquidity and interest rate risks, which are each discussed in greater detail above. The CDO equity may be unrated or non-investment grade. As a holder of CDO equity, the Portfolio Entities will have limited remedies available upon the default of the CDO. The Portfolio Entities may be unable to find a sufficient number of attractive opportunities to meet their investment objective or fully invest their committed capital. For example, from time to time, the market for CDO transactions has been adversely affected by a decrease in the availability of senior and subordinated financing for transactions, in part in response to regulatory pressures on providers of financing to reduce or eliminate their exposure to such transactions. CDOs often invest in concentrated portfolios of assets. The concentration of an underlying portfolio in any one obligor would subject the related CDOs to a greater degree of risk with respect to defaults by such obligor and the concentration of a portfolio in any one industry would subject the related CDOs to a greater degree of risk with respect to economic downturns relating to such industry.

The value of CDOs generally fluctuates with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related CDO ("CDO Collateral"), general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. Consequently, holders of CDOs must rely solely on distributions on the CDO Collateral or proceeds thereof for payment in respect thereof. If distributions on the CDO Collateral are insufficient to make payments on the CDOs, no other assets will be available for payment of the deficiency and following realization of the CDOs, the obligations of such issuer to pay such deficiency generally will be extinguished. CDO Collateral may consist of high-yield debt securities, loans, asset-backed securities and other securities, which often are rated below investment grade (or of equivalent credit quality). High-yield debt securities generally are unsecured (and loans may be unsecured) and may be subordinated to certain other obligations of the issuer thereof. The lower ratings of high-yield securities and below investment grade loans reflect a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the related issuer or obligor to make payments of principal or interest. Such investments may be speculative.

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Distressed Obligations. The obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems (including companies involved in bankruptcy or other reorganization and liquidation proceedings) are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the risk that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate, recharacterize debt as equity or disenfranchise particular claims. Such companies' obligations may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to Portfolio Entities' investments in any Security. Obligations in which Managers invest may be less than investment grade. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that value of the assets collateralizing the Portfolio Entities' investments will be sufficient or that prospects for a successful reorganization or similar action will become available. In any reorganization or liquidation proceeding relating to a company in which Managers invest, Portfolio Entities may lose their entire investment, may be required to accept cash or securities with a value less than its original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Portfolio Entities' investments may not compensate the Shareholders adequately for the risks assumed. In addition, under certain circumstances, payments and distributions may be disgorged if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

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

Discontinuation of LIBOR. It is expected that the London Interbank Offered Rate ("LIBOR"), which is commonly used as a reference rate within various financial contracts (any such rate, a "Reference Rate"), will not be published after the year 2021. In anticipation of the end of LIBOR, the United States and other countries are currently working to replace LIBOR with alternative Reference Rates. As a general matter, the expected discontinuation of LIBOR may significantly impact financial markets; specifically, discontinuation may impact financial contracts to which Portfolio Entities are a party. Generally, the transition to alternative Reference Rates may (i) cause the value of a Reference Rate to be uncertain or to be lower or more volatile than it would otherwise be; (ii) result in uncertainty as to the functioning, liquidity or value of certain financial contracts; (iii) involve actions of regulators or rate administrators that adversely affect certain markets or specific financial contracts; and (iv) impact the strategy, products, processes, legal positions and information systems of market participants, including Portfolio Entities and their counterparties. With respect to financial contracts to which Portfolio Entities are a party, including corporate and municipal bonds and loans, consumer loans, bank loans, floating rate debt, certain asset-backed securities, and interest rate swaps and other derivatives, any such contract that has a maturity that extends beyond 2021 and uses LIBOR as a Reference Rate (other than contracts that include curative fallback language or other curative mechanisms)

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may need to be renegotiated, the process of which will consume resources of Portfolio Entities and may result in disputes among counterparties, the result of which may be adverse to the Portfolio. Considered in their entirety, the impacts of the discontinuation of LIBOR on financial markets generally and on the specific financial contracts to which the Portfolio Entities are a party may adversely affect the performance of the Portfolio.

Loan Investments. The Managers' success in the area of loan investing will depend, in part, on its ability to obtain loans on advantageous terms. In purchasing loans, the Managers will compete with a broad spectrum of investors and institutions. Increased competition for, or a diminution in the available supply of, qualifying loans could result in lower yields on such loans, which could reduce returns to investors.

Leveraged Loans.

"Leveraged loans" are loans made to companies with a below investment-grade rating from any nationally recognized rating agency. Such loans may be performing poorly when the Portfolio Entities acquire them. There is no assurance that the Manager will correctly evaluate the value of the assets collateralizing such loans or the prospects for distribution on or repayment of such loans. The Portfolio Entities may lose their entire investment or may be required to accept cash, property or securities with a value less than the Portfolio Entities' original investment and/or may be required to accept payment over an extended period of time.

Hung Loans.

The term "hung loan" commonly refers to a loan that has been made (or has been committed to be made), and the lender is not able to syndicate the loan on the originally anticipated terms. Hung loans are illiquid and lack readily ascertainable market values; there is no assurance that the price to be paid for hung loans by the Portfolio Entities will reflect a discounted price that should allow the Portfolio Entities to achieve a positive return on such loans or avoid losses. Since the price of the loans to be purchased is expected to continue to be significantly impacted by, in addition to the specific circumstances relating to each loan (e.g., in the case of a loan relating to a leveraged buyout ("LBO"), the financial condition of the target), global and macro-economic conditions (e.g., monetary policy, changes to currency exchange rates, governmental intervention or changes to existing laws, international geo-political events, etc.) as well as other systemic factors, it is possible that loans purchased by the Portfolio Entities will suffer significant impairments in value as a result of events not predicted by the Managers. The Managers may also face difficulties in disposing of or leveraging such loans, or in doing so without incurring losses. The markets in which hung loans are purchased and sold have been volatile and are likely to continue to be volatile in the future.

Bank Loans.

Bank loans are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of the Portfolio Entities to directly

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enforce its rights with respect to participations. Successful claims by third parties arising from these and other risks will be borne by the Portfolio Entities.

As secondary market trading volumes increase, new loans are frequently adopting standardized documentation to facilitate loan trading, which may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue. Because of the provision to holders of such loans of confidential information relating to the borrower, the unique and customized nature of the loan agreement, and the private syndication of the loan, loans are not as easily purchased or sold as a publicly traded security, and historically the trading volume in the loan market has been small relative to the high-yield debt market.

Second Lien Loans.

The Managers may invest in loans that are secured by a second lien on assets. Second lien loans have been a developed market for a relatively short period of time, and there is limited historical data on the performance of second lien loans in adverse economic circumstances. In addition, second lien loan products are subject to intercreditor arrangements with the holders of first lien indebtedness, pursuant to which the second lien holders have waived many of the rights of a secured creditor, and some rights of unsecured creditors, including rights in bankruptcy that can materially affect recoveries. While there is broad market acceptance of some second lien intercreditor terms, no clear market standard has developed for certain other material intercreditor terms for second lien loan products. This variation in key intercreditor terms may result in dissimilar recoveries across otherwise similarly situated second lien loans in insolvency or distressed situations. While uncertainty of recovery in an insolvency or distressed situation is inherent in all debt instruments, second lien loan products carry more risks than certain other debt products. Beginning in August 2007, the market for many loan products, including second lien loans, contracted significantly which made virtually all leveraged loan products, particularly second lien loan products, less liquid or illiquid. Many participants ceased underwriting and purchasing certain second lien loan products. There can be no assurance that the market for second lien loans will not contract further.

Bridge Loans.

It is a common practice for financial institutions to commit to providing bridge loans to facilitate acquisitions, including LBOs, where they serve as advisers to the purchaser. Bridge loans are frequently made because, for timing or market reasons, longer-term financing is not available at the time the funds are needed, which is often at the time of the closing of an acquisition. In the past, these commitments were not frequently drawn upon due to the availability of other sources of financing; however, due to market conditions affecting the availability of these other sources of financing (principally high-yield bond transactions), bridge loan commitments have been and may be drawn upon more regularly. Since these commitments were not regularly drawn upon in the past, there is little history for investors to rely upon in evaluating investments in bridge loans. Bridge loans often have shorter maturities. Borrower and lenders typically agree to shorter maturities based on the anticipation that the bridge loans will be replaced with other forms of financing within such shorter time period. However,

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the source and timing of such replacement financing may be uncertain and can be affected by, among other things, market conditions and the financial condition of the borrower at the maturity date of the bridge. If the borrower is unable to obtain replacement financing and repay the bridge loan at maturity, the terms of the bridge loan may provide for the bridge loan to be converted to a longer term loan. If bridge loans are not repaid (or cannot be disposed of on favorable terms) on the dates projected by the Manager, there may be an adverse effect upon the ability of the Manager to manage the assets of the Portfolio Entities in accordance with its models and projections or an adverse effect upon the Portfolio Entities' performance and ability to make distributions.

Debtor-in-Possession ("DIP") Loans.

Loans to companies that have filed for protection under Chapter 11 of the U.S. Bankruptcy Code, as amended, are most often asset-based, revolving working-capital facilities put into place at the outset of a Chapter 11 case to provide the debtor with both immediate cash and the ongoing working capital that will be required during the reorganization process. While such loans are generally less risky than many other types of loans as a result of their seniority in the debtor's capital structure and because their terms have been approved by a U.S. federal bankruptcy court order, it is possible that the debtor's reorganization efforts may fail and the proceeds of the ensuing liquidation of the DIP lender's collateral might be insufficient to repay in full the DIP loan.

Fraud Associated with Loans.

Of paramount concern in loan investments is the possibility of material misrepresentation or omission on the part of the borrower or loan seller. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of the Portfolio Entities to perfect or effectuate a lien on the collateral securing the loan. The Managers will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to the Portfolio Entities may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

Municipal Securities. Various factors may adversely affect the value and yield of municipal securities. These factors include political or legislative changes and uncertainties related to the tax status of municipal securities or the rights of investors in these securities. To the extent that the Managers invest heavily in a particular state's municipal securities, the Portfolio Entities will be more vulnerable to factors affecting that state. The Portfolio Entities' investments in revenue securities, where principal and interest payments are made from the revenue of a specific project or facility, and not general tax revenues, may have increased risks. Factors affecting the project or facility, such as local business or economic conditions, could have a significant impact on the project's ability to make payments of principal and interest on these securities.

Real Estate. Real estate investments are not as liquid as other types of investments and this lack of liquidity may tend to limit the Managers' ability to react promptly to changes in economic or other conditions. In addition, expenditures associated with real estate investments, such as mortgage payments, real estate taxes and maintenance costs, are generally not reduced when circumstances cause a reduction in income from the investments. The Portfolio

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Entities may need to comply with certain legal, tax and other requirements prior to liquidating such investments.

Real Estate Insurance

The insurance coverage applicable to real estate investments contains policy specifications and insured limits customarily carried for similar properties, business activities and markets. There may be certain losses, including losses from floods and losses from earthquakes, acts of war, acts of terrorism or riots, that are not generally insured against or that are not generally fully insured against because it is not deemed to be economically feasible or prudent to do so. If an uninsured loss or a loss in excess of insured limits occurs with respect to a real estate investment, the Portfolio Entities could experience a significant loss and could potentially remain obligated under any recourse debt associated with the property.

Potential Environmental Liability

Under various U.S. federal, state, and local laws, ordinances and regulations, a current or previous owner, developer or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, under or in its property. The costs of removal or remediation of such substances could be substantial. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such hazardous substances. The Managers will attempt to assess such risks as part of its due diligence activities, but cannot give any assurance that such conditions do not exist or may not arise in the future. The presence of such substances on the Portfolio Entities' real estate investments could adversely affect its ability to sell such investments or to borrow using such investments as collateral.

Real Estate-Related Securities. Securities issued by entities which invest in real estate, including "real estate investment trusts" ("REITs"), generally will be subject to the risks incident to the ownership and operation of commercial real estate and/or risks incident to the making of nonrecourse mortgage loans secured by real estate. Such risks include the risks associated with both the domestic and international general economic climates; local real estate conditions; risks due to dependence on cash flow; risks and operating problems arising out of the absence of certain construction materials; changes in supply of, or demand for, competing properties in an area (as a result, for instance, of over-building); the financial condition of tenants, buyers and sellers of properties; changes in availability of debt financing; energy and supply shortages; changes in the tax, real estate, environmental, and zoning laws and regulations; various uninsured or uninsurable risks; natural disasters; and the ability of the Portfolio Entities or third-party borrowers to manage the real properties. In addition, the Portfolio Entities may incur the burdens of ownership of real property, which include the paying of expenses and taxes, maintaining such property and any improvements thereon, and ultimately disposing of such property.

Short Selling. It is anticipated that most Managers will engage in short selling. A short sale creates the risk of an theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Portfolio Entities of buying those securities to cover the short position. There can be no assurance that the Portfolio Entities will be able to maintain the ability to borrow securities sold short. In such

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

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

Leverage; Interest Rates; Margin. The Portfolio generally does not intend to utilize leverage in connection with its investment program but may, however, borrow up to 20% of the Portfolio's equity (determined at the time of the borrowing) from time to time, including for cash management purposes (*e.g.*, short-term borrowings to fund redemptions or make investments). In addition, the Managers with which the assets of the Portfolio are invested may buy and sell securities on margin and otherwise utilize leverage, increasing the volatility of the Portfolio's investments. Trading securities on margin will result in interest charges and, depending on the amount of trading activity, such charges could be substantial. The low margin deposits normally required in futures and forward trading permit a high degree of leverage. Accordingly, a relatively small price movement in a futures contract may result in immediate and substantial losses to the investor.

While leverage presents opportunities for increasing the Portfolio's total return, it has the effect of potentially increasing losses as well. Accordingly, any event that adversely

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affects the value of an investment, either directly or indirectly, could be magnified to the extent that leverage is employed. The cumulative effect of the use of leverage by the Portfolio or a Manager, directly or indirectly, in a market that moves adversely to the investments of the entity employing the leverage, could result in a loss to the Portfolio that would be greater than if leverage were not employed by the Portfolio or such Manager. In addition, to the extent that the Portfolio or the Managers borrow funds, the rates at which they can borrow may affect the operating results of the Portfolio.

The anticipated use of short-term margin borrowings by the Managers may result in certain additional risks to the Portfolio. For example, should the securities that are pledged to brokers to secure the Portfolio Entities' margin accounts decline in value, or should brokers from which the Managers have borrowed increase their maintenance margin requirements (*i.e.*, reduce the percentage of a position that can be financed), then the Portfolio Entities could be subject to a "margin call", pursuant to which the Managers must either deposit additional funds with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. The broker normally has the right to liquidate the Manager's portfolio in the broker's discretion. In the event of a precipitous drop in the value of the assets of a Portfolio Entity, the Portfolio Entity might not be able to liquidate assets quickly enough to pay off the margin debt and might suffer mandatory liquidation of positions in a declining market at relatively low prices, thereby incurring substantial losses.

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

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

Regulation in the Derivatives Industry

There are many rules related to derivatives that may negatively impact the Portfolio Entities, such as requirements related to recordkeeping, reporting, portfolio reconciliation, central clearing, minimum margin for uncleared OTC instruments and mandatory trading on electronic facilities, and other transaction-level obligations. Parties that act as dealers in swaps, are also subject to extensive business conduct standards, additional "know your counterparty" obligations, documentation standards and capital requirements. All of these requirements add costs to the legal, operational and compliance obligations of the Managers and the Portfolio Entities, and increase the amount of time that the Managers spend on non-investment-related activities. Requirements such as these also raise the costs of entering into derivative transactions, and these increased costs will likely be passed on to the Portfolio.

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

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

Many of these requirements were implemented under legislation intended to reform the U.S. financial regulatory system, the EU Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (known as the European Market Infrastructure Regulation, or "EMIR"), and similar regulations globally. In the United States, regulatory responsibility for derivatives is divided between the SEC and the CFTC, a distinction that does not exist in any other jurisdiction. The SEC has regulatory authority over "security-based swaps" and the CFTC has regulatory authority over "swaps". EMIR is being implemented in phases through the adoption of delegated acts by the European Commission. As a result of the SEC and CFTC bifurcation and the different pace at which the SEC, the CFTC, the European Commission and other international regulators have promulgated necessary regulations, different transactions are subject to different levels of regulation. Though many rules and regulations have been finalized, there are others, particularly SEC regulations with respect to security-based swaps, that are still in the proposal stage or are expected to be introduced in the future.

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

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Reporting

Most swap transactions have become subject to anonymous "real time reporting" requirements, meaning that information relating to transactions entered into by a Portfolio Entity will become visible to the market in ways that may impair such Portfolio Entity's ability to enter into additional transactions at comparable prices or could enable competitors to "front run" or replicate such Portfolio Entity's strategies.

Central Clearing

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

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

Another risk is that the Portfolio Entities may be subject to more onerous and more frequent (daily or even intraday) margin calls from both the Portfolio Entities' FCM and the clearinghouse. Virtually all margin models utilized by the clearinghouses are dynamic, meaning that unlike traditional bilateral swap contracts where the amount of initial margin posted on the contract is typically static throughout the life of the contract, the amount of the initial margin that is required to be posted in respect of a cleared contract will fluctuate, sometimes significantly, throughout the life of the contract. The dynamic nature of the margin models utilized by the clearinghouses and the fact that the margin models might be changed at any time may subject the Portfolio Entities to an unexpected increase in collateral obligations by clearinghouses during a volatile market environment, which could have a

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detrimental effect on the Portfolio Entities. Clearinghouses also limit collateral that they will accept to cash, U.S. treasuries and, in some cases, other highly rated sovereign and private debt instruments, which may require the Portfolio Entities to borrow eligible securities from a dealer to meet margin calls and raise the costs of cleared trades to the Portfolio Entities. In addition, clearinghouses may not allow a Portfolio Entity to portfolio-margin its positions, which may increase such Portfolio Entity's costs.

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

Swap Execution Facilities

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

The EU regulatory framework governing derivatives is set not only by EMIR but also a legislative package known as a recast of the Markets in Financial Instruments Directive ("MiFID II"). Among other things, MiFID II requires transactions in derivatives to be executed on regulated trading venues.

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

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Margin Requirements for Non-Cleared Swaps

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

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

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

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

Counterparty Default. The stability and liquidity of repurchase agreements, swap transactions, forward transactions and other OTC derivative transactions depend in large part on the creditworthiness of the parties to the transactions. It is expected that a Manager will monitor

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on an ongoing basis the creditworthiness of firms with which it will enter into repurchase agreements, interest rate swaps, caps, floors, collars or other OTC derivatives. If there is a default by the counterparty to such a transaction, the Portfolio Entities will under most normal circumstances have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in the net asset value of a Portfolio Entity being less than if the Portfolio Entity had not entered into the transaction. Furthermore, there is a risk that any of such counterparties could become insolvent and/or the subject of insolvency proceedings. If one or more of a Portfolio Entity's counterparties were to become insolvent or the subject of insolvency proceedings in the United States (either under the Securities Investor Protection Act or the United States Bankruptcy Code), there exists the risk that the recovery of such Portfolio Entity's securities and other assets from such prime broker or broker-dealer will be delayed or be of a value less than the value of the securities or assets originally entrusted to such prime broker or broker-dealer.

In addition, each Portfolio Entity may use counterparties located in jurisdictions outside the United States. Such local counterparties are subject to the laws and regulations in foreign jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to a Portfolio Entity's assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a counterparty, it is impossible to generalize about the effect of their insolvency on the Portfolio Entity and its assets. Investors should assume that the insolvency of any counterparty would result in a loss to the Portfolio Entity, which could be material.

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

Futures Contracts. The value of futures contracts depends upon the price of the securities, such as commodities, underlying them. The price of futures contracts are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, as well as national and international political and economic events and policies. In addition, investments in futures contracts are also subject to the risk of the failure of any of the exchanges on which the Portfolio Entity's positions trade or of its clearing houses or counterparties. Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a

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particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent a Manager from promptly liquidating unfavorable positions and subject such Manager, and therefore the Portfolio, to substantial losses or prevent it from entering into desired trades. Also, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss. In extraordinary circumstances, a futures exchange or the CFTC could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

Swap Agreements. The Managers may enter into swap agreements. Swap agreements can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease a Portfolio Entity's exposure to equity securities, long-term or short-term interest rates, foreign currency values, corporate borrowing rates or other factors. Swap agreements can take many different forms and are known by a variety of names.

Depending on how they are used, swap agreements may increase or decrease the overall volatility of a Manager's portfolio. The most significant factor in the performance of swap agreements is the change in the individual equity values, specific interest rate, currency or other factors that determine the amounts of payments due to and from the counterparties. If a swap agreement calls for payments by a Portfolio Entity, such Portfolio Entity must be prepared to make such payments when due. This is only true in default and not part of mark-to-market.

Single Stock Futures. The Managers may invest in single stock futures contracts. A single stock futures contract is an agreement to buy or to sell shares of a specific stock at a specified price on a designated date in the future. Investment in single stock futures involves a substantial degree of risk. The market for single stock futures is new to the United States. Therefore, the size of the market for single stock futures is yet unknown. There is no assurance that a liquid secondary market will exist for single stock futures contracts purchased or sold, and the Managers may be required to maintain a position until exercise or expiration, which could result in losses. Furthermore, margin for single stock futures contracts is typically low relative to the value of the futures contracts purchased or sold. Low margin requirements mean that a relatively small price movement in a single stock futures contract may result in immediate and substantial losses to a Portfolio Entity.

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

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Developments in Global Credit Markets and Impact on Other Markets. Credit and valuation problems in the subprime mortgage market have generated volatility and illiquidity in the markets for securities directly or indirectly exposed to subprime mortgage loans. This volatility and illiquidity has extended to the global credit and equity markets generally, exacerbated, among other things, by growing uncertainty regarding the extent of the problems in the mortgage industry and the degree of exposure of financial institutions and others, decreased risk tolerance by investors and significantly tightened availability of credit. The duration and ultimate effect of current market conditions cannot be predicted, nor is it known whether or the degree to which such conditions may worsen. However, the continuation of current market conditions, uncertainty or further deterioration could result in further declines in the market values of potential investments made by Managers or declines in the market values of subsequently purchased investments made by Managers. Such declines could lead to diminished investment opportunities for a Manager, prevent a Manager from successfully executing its investment strategies or require a Manager to dispose of investments at a loss while such adverse market conditions prevail.

Credit Facilities. In connection with any Credit Facility, the Shareholders may be required to confirm the terms of their Commitments to the lender(s) in respect thereof and provide such information and execute such documents as such lender(s) or the Investment Manager may reasonably require. The Investment Manager may require a potential investor to provide these confirmations, information or documents to a lender as a condition precedent of accepting such potential investor's Commitment to the Portfolio. The presence of a Credit Facility may further impede the ability of a Shareholder to transfer its Shares in the Portfolio. If a Shareholder defaults on its Draw Down obligations the Portfolio, the Portfolio may no longer be able to borrow against such Shareholder's Unfunded Capital Commitment and a lender could require an immediate repayment of any outstanding Portfolio borrowings. In this situation, the Portfolio may be required to dispose of investments earlier than expected, which may be at a loss, in order to repay the Credit Facility. Where a lender enforces its remedies and calls capital directly from the Shareholders to cause the Portfolio to satisfy its obligations to such lender, there is no requirement that the lender exercise such remedy pro rata among Shareholders, thereby potentially causing an uneven outcome among the Shareholders. Furthermore, to the extent that the Portfolio enters into multiple financing arrangements, such arrangements may contain cross-default provisions that could magnify the effect of a default. If a cross-default provision were exercised, this could result in a substantial loss for the Portfolio.

Effect of Subscription Credit Facilities on Returns. Calculations of performance data provided in connection with the Portfolio are based in part on the payment date of Capital Commitments received from Shareholders. However, in many cases, the Portfolio will make investments using borrowings, later using a Draw Down to repay such borrowings (and related interest and other expenses). As a result, use of a Credit Facility and other borrowings will impact the calculation of Portfolio-level returns and may result in higher reported returns than if borrowings had not been used. Conversely, expenses associated with borrowings are borne by the Portfolio in the manner described herein and such expenses reduce returns and magnify investment losses. Furthermore, where the interest payable on a Credit Facility is generally at a lower rate than the anticipated returns, the Investment Manager would be incentivized to fund the acquisition of investments and ongoing capital needs with a credit facility in lieu of a Draw Down.

IV. Additional Tax Aspects

This section of the Supplement entitled "Cayman Islands – Automatic Exchange of Financial Account Information" replaces and supersedes in its entirety the section of the

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Memorandum entitled "Tax Aspects – Cayman Islands – Automatic Exchange of Financial Account Information."

Cayman Islands – Automatic Exchange of Financial Account Information

The Cayman Islands has signed an inter-governmental agreement to improve international tax compliance and the exchange of information with the United States (the "US IGA"). The Cayman Islands has also signed, along with over 100 other countries, a multilateral competent authority agreement to implement the Organisation for Economic Cooperation and Development's Standard for Automatic Exchange of Financial Account Information – Common Reporting Standard (the "CRS" and together with the US IGA, "AEOI").

The Cayman Islands has issued regulations to give effect to the AEOI regime (the "AEOI Regulations"). Pursuant to the AEOI Regulations, the Cayman TIA has published guidance notes on the application of the US IGA and the CRS.

All Cayman Islands "Financial Institutions" are required to comply with the registration, due diligence and reporting requirements of the AEOI Regulations, unless they are able to rely on an exemption that allows them to become a "Non-Reporting Financial Institution" (as defined in the relevant AEOI Regulations) with respect to one or more of the AEOI regimes, in which case only the registration requirement would apply under the CRS.

The AEOI Regulations may require the Portfolio (or the Fund) to, amongst other things, (i) register with the Service; (ii) register with the Cayman TIA, and thereby notify the Cayman TIA of its status as a "Reporting Financial Institution"; (iii) adopt and implement written policies and procedures setting out how it will address its obligations under the CRS; (iv) conduct due diligence on its accounts to identify whether any such accounts are considered "Reportable Accounts"; and (v) annually report information on such Reportable Accounts to the Cayman TIA. The Cayman TIA will transmit the information reported to it to the overseas fiscal authority relevant to a Reportable Account (e.g., the Service in the case of a U.S. Reportable Account) annually on an automatic basis.

For details on the related U.S. tax withholding and reporting regime, see "*Identity and Reporting of Beneficial Ownership; Withholding on Certain Payments*" above.

By investing in the Portfolio and/or continuing to invest in the Portfolio, investors shall be deemed to acknowledge that further information may need to be provided to the Portfolio or the Fund, the Portfolio's (or the Fund's) compliance with the AEOI Regulations may result in the disclosure of investor information, and investor information may be exchanged with overseas fiscal authorities. Where an investor fails to provide any requested information (regardless of the consequences), each of the Portfolio and the Fund reserve the right to take any action and/or pursue all remedies at its disposal including, without limitation, compulsory redemption of the investor concerned.

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