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Confidential Private Placement Memorandum

Date of Memorandum: May 3, 2011

FORWARD ENDURANCE FUND, L.P.

A Private Offering of Limited Partnership Interests

with a Minimum Investment of: US \$250,000

Forward Management, LLC
General Partner

**An Investment in the Partnership Involves
a Substantial Risk of Loss**

Please Review Certain Risk Factors

NOTICE TO ALL POTENTIAL INVESTORS

This Confidential Private Placement Memorandum (this “*Memorandum*”) is provided to potential investors (“*you*” or an “*Investor*”) solely for the purpose of your evaluation of an investment in the limited partnership interests (the “*Interests*”) of the Forward Endurance Fund, L.P. (the “*Fund*”), a Delaware limited partnership. You may not reproduce or distribute this Memorandum to anyone else (other than the professional advisors that you have identified in your Subscription Booklet). By accepting this Memorandum, you agree to return it and all related documents to Forward Management, LLC (the “*General Partner*”) if you do not invest in the Fund.

The information in this Memorandum is given as of the date on the cover page, unless another time is specified, and you should not infer from either the subsequent delivery of this Memorandum or the acceptance of your investment that there have not been any changes in the facts described since that date.

You and your authorized representatives may ask questions of the General Partner about the terms and conditions of this offering, and may obtain additional information, to the extent the General Partner possesses such additional information or can obtain it without unreasonable effort or expense.

No person has been authorized in connection with this offering to give any information or make any representations other than those contained in this Memorandum.

THIS IS AN OFFERING OF UNREGISTERED SECURITIES: The Interests offered by this Memorandum have not been registered or qualified for sale under the Securities Act of 1933, as amended (the “*Securities Act*”), or any state’s securities laws. Such Interests are offered pursuant to exemptions from such registration or qualification under the Securities Act. The Fund will conduct its activities so as not to be deemed an investment company under the Investment Company Act of 1940, as amended, pursuant to Section 3(c)(1) thereunder. This Memorandum has not been filed with or reviewed by the Securities and Exchange Commission (the “*SEC*” or the “*Commission*”) and neither the Commission nor any state securities administrator has passed upon or endorsed the merits of an investment in the Fund or the accuracy or the adequacy of the information contained in this Memorandum. Any representation to the contrary is a criminal offense. This Memorandum does not constitute an offer to sell or a solicitation of an offer to buy Interests in the Fund in any state or jurisdiction in which such an offer or solicitation is unlawful.

TRANSFERS AND WITHDRAWALS ARE SUBJECT TO SIGNIFICANT RESTRICTIONS: The Interests offered by this Memorandum may not be transferred except with the consent of the General Partner and except as permitted under the Securities Act and applicable state laws. Such consent and such compliance are unlikely. Further, withdrawals of investments in the Fund are subject to significant restrictions. As a result, you must be in a position to bear the economic risk of an investment in the Fund for a significant period.

YOU SHOULD CONSULT WITH YOUR OWN ADVISORS BEFORE INVESTING: You should not view the contents of this Memorandum as legal, tax or investment advice. You should consult your own counsel, accountant or financial advisor as to legal, tax and related matters concerning an investment in the Fund.

RISK FACTORS AND INVESTOR RESPONSIBILITY: Investment in the Fund carries significant risk. There can be no assurance that the investment objective of the Fund will be achieved, and investment results may vary substantially over time. An investment in the Fund is not intended to be a complete investment program for any Investor. Prospective Investors should carefully consider whether an investment in Interests is suitable for them in light of their circumstances and financial resources. See “Certain Risk Factors.”

CFTC EXEMPTIVE RELIEF: Pursuant to rules of the Commodity Futures Trading Commission (the “*Commission*” or “*CFTC*”), the General Partner is not required to register, and is not registered, with the Commission as a Commodity Pool Operator (“*CPO*”) and therefore, unlike a registered CPO, the General Partner is not required to deliver a disclosure document or a certified annual report to Investors in the Fund. Among other things, the exemption requires the General Partner to file a “Notice of Exemption” with the National Futures Association. It also requires that at all times with respect to the Fund either: (a) the aggregate initial margin and premiums required to establish commodity interest positions does not exceed five percent (5%) of the liquidation value of the Fund’s portfolio; or (b) the aggregate net notional value of the Fund’s commodity interest positions does not exceed one-hundred percent (100%) of the liquidation value of the Fund’s portfolio.

Pursuant to rules of the Commission, the General Partner is not required to register, and is not registered, with the Commission as a Commodity Trading Adviser. Among other things, the exemption requires the General Partner to file a “Notice of Exemption” with the National Futures Association.

FORWARD LOOKING STATEMENTS: This Memorandum contains forward looking statements based on the General Partner’s experience and expectations about the markets in which the Fund will invest and the methods by which the General Partner expects to cause the Fund to invest in those markets. Those statements are sometimes indicated by words such as “expects,” “believes,” “seeks,” “may,” “intends,” “attempts,” “will” and similar expressions. These forward looking statements are not guarantees of future performance and are subject to many risks, uncertainties and assumptions that are difficult to predict. Therefore, actual returns could be much lower than those expressed or implied in any forward looking statements as a result of various factors. The section titled “Certain Risk Factors” in this Memorandum discusses some of the important risk factors that may affect the Fund’s returns. You should carefully consider those risks and other information in this Memorandum before deciding whether to invest in the Fund. Neither the Fund nor the General Partner has any obligation to revise or update any forward looking statement for any reason.

FOR FLORIDA RESIDENTS: The Interests offered hereby will be sold to, and acquired by, the purchasers in a transaction exempt under Section 517.061(11) of the Florida Securities and Investor Protection Act. That Section provides that when sales are made to five (5) or more persons in Florida, any sale made in Florida pursuant to such Section is voidable at the option of the purchaser within three (3) days after the first tender of consideration is made by such purchaser to the Fund, an agent of the Fund or an escrow agent or within three (3) days after the availability of that privilege is communicated to such purchaser, whichever occurs later.

All references to “\$,” “dollar,” “US dollar” and “US \$” are to the currency of the United States of America. “*Business day*” as used in this Memorandum means any day that is not a Saturday or Sunday and is not a legal holiday or a day on which banking institutions generally are authorized or obligated by law or regulations to remain closed in New York, New York or San Francisco, California.

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SUMMARY OF THE OFFERING

The following is only a summary of the information that appears in this Confidential Private Placement Memorandum (the “*Memorandum*”) and the attached Limited Partnership Agreement (the “*Partnership Agreement*”) of the Forward Endurance Fund, L.P. (the “*Fund*”), a Delaware limited partnership. Prospective investors (the “*Investors*”) should consult their own advisors as to the consequences of an investment in the limited partnership interests (the “*Interests*”) of the Fund.

The Fund	<p>The Fund is a Delaware limited partnership whose principal place of business is at 101 California Street, Suite 1600, San Francisco, California 94111. The Fund’s telephone number is (415) 869-6300.</p>
The General Partner	<p>Forward Management, LLC a Delaware limited liability company (the “<i>General Partner</i>”), will serve as the general partner of the Fund and will have exclusive power and authority with respect to the management of the Fund. The General Partner will also serve as the discretionary investment manager for the Fund and, in that capacity, will also have authority over the assets of the Fund and responsibility for managing the Fund’s securities portfolios on a daily basis.</p> <p>Founded in 1998, the General Partner is a San Francisco based privately held investment management firm with more than US \$6.7 billion in assets under management by it and its affiliates for institutional and other clients as of December 31, 2010.</p> <p>The primary portfolio manager initially assigned to the Fund is David Readerman. Additional portfolio managers and analysts will also be involved in the management of the Fund assets. The General Partner reserves the right to change personnel assigned to the Fund at its sole discretion.</p> <p>The General Partner is located at 101 California Street, Suite 1600, San Francisco, California 94111.</p>
Investment Objective	<p>The Fund’s investment objective is to achieve significant returns for investors in all market conditions and with very little correlation to broader market indices. The Fund will invest throughout the capital structure of issuers on both the long and short sides in an attempt to achieve this objective.</p> <p>There is no assurance that the Fund will achieve its investment objective or that Investors will not lose money.</p>
Investment Strategy	<p>The Fund intends to implement its investment objective through capitalizing on the go-anywhere, “creative destruction” opportunities present in global capitalism, as characterized by economist Joseph Schumpeter. The Fund will use equity research driven investment processes within the context of competitive industry analysis, framed by Michael Porter’s “Competitive Strategy,” to invest long in what the General Partner perceives to be potentially strong investments and short in potentially weak investments across all industry sectors.</p> <p>Investment positions will be established based upon fundamental analysis as an equity stakeholder in the business. Long positions will be taken based upon expected future price appreciation over the determined investment horizon and sell positions, both to close existing long positions and to open new short positions, will be based upon the expected future valuation decline over the</p>

determined investment horizon.

The Fund intends to invest globally in companies of all market capitalizations through investments in equity securities, American Depositary Receipts (ADRs), fixed income instruments, equity futures, options and swaps, and exchange-traded funds (ETFs). The Fund's portfolio may contain as many as 80 different securities depending on the size of the Fund. The Fund will target a maximum position size of 7% at purchase, with a maximum position size of 15% after purchase. The General Partner will not be required to dispose of any securities to maintain the aforementioned guidelines resulting from market movements.

The Fund intends to utilize leverage to achieve its investment objective subject to the following limitations: a maximum use of leverage of 200% of the Fund's Net Asset Value in respect of short positions and 400% in respect of long positions. Under no circumstances would the Fund's overall use of leverage exceed 400% of the Fund's Net Asset Value. These limits could not be increased without prior notice to Investors and the opportunity for Investors to submit a withdrawal request.

**Investment
Restrictions**

The Partnership Agreement does not impose any limits on the types of securities or other instruments in which the Fund may invest, the choice of sectors or markets within which it seeks to invest, the type of positions it may take, the investment or trading strategies it may use, or the concentration of the Fund's investments. The leverage limits described above are not included in the Partnership Agreement.

Risks

The Fund's portfolio may be subject to swings in value. The General Partner will follow an investment strategy that, if unsuccessful, could involve significant losses for Investors. Although the General Partner has the flexibility to react to changing market conditions, changes in market conditions or an investment's situation could nevertheless involve significant losses. The General Partner will not be held liable to the Fund or any of its Investors for any errors in judgment. An investment in the Fund will be illiquid and is suitable only for persons who have no need for a return of any part of their investment for the four-year duration of the Fund. The General Partner makes no guarantee, either oral or written, that the Fund's investment objective will be achieved. An investment in the Fund is subject to significant risk.

The General Partner reserves the right to change the Fund's investment strategy at any time and from time to time without Investor consent. The General Partner will notify Investors as soon as is reasonably practicable of any changes to the Fund's investment strategy that the General Partner, in its sole discretion, considers to be material.

Who May Invest

The Fund is offering Interests only to prospective Investors who are both (a) "accredited investors" within the meaning of Rule 501(a) of Regulation D under the Securities Act of 1933, as amended (the "*Securities Act*") and (b) "qualified clients" within the meaning of Rule 205-3 under the Investment Advisers Act of 1940, as amended (the "*Advisers Act*").

The eligibility requirements applicable to Investors are described in the subscription agreement for Interests in the Fund. The General Partner may reject subscriptions in its absolute discretion but reserves the right to admit investors

not meeting the eligibility criteria described above if the regulatory status of the Fund would not be jeopardized thereby.

**Subscriptions and
Minimum
Investment**

Prospective Investors who desire to invest in the Fund will be required to make a minimum investment of US \$250,000, subject to the General Partner's ability, in its sole discretion, to reduce, waive or change the minimum investment amount on an individual basis.

Initial and additional capital contributions may generally be made, upon not less than 5 Business Days' prior written notice, as of the first Business Day (as defined herein) of each calendar month and on such other days as determined by the General Partner in its sole discretion (each a "*Subscription Date*"). The term "*Business Day*" refers to (i) any day on which both the New York Stock Exchange and the U.S. Federal Reserve are open, and (ii) any such other day or days as the General Partner may designate in its discretion. All capital contributions, in whole or in part, are subject to rejection or acceptance by the Fund for any reason or for no reason, in the sole discretion of the General Partner.

Management Fee

For providing services to the Fund, the General Partner will receive a fee equal on an annual basis to 1.50% of value of the capital account ("*Capital Account*") of each Investor (the "*Management Fee*"). The Management Fee will be paid monthly in arrears on the last day of each calendar month. For periods of less than a month, the Management Fee will be prorated for the days remaining in that calendar month.

The General Partner, in its sole and absolute discretion, may waive, reduce, rebate, modify or otherwise calculate differently, all or a portion of the Management Fee as to an Investor, or may agree with an Investor to other changes in the Management Fee with respect to such an Investor.

**Performance
Allocation**

The General Partner receives, in arrears, a performance allocation equal in the aggregate to 20% of the net gains ("**Net Gains**") for the relevant performance allocation period (a "**Performance Allocation Period**"). For purposes of this calculation, Net Gains means the amount by which each Investor's pro rata share of Net Profits for the applicable period exceeds cumulative net losses which have been carried forward from prior periods for each such Investor, and Performance Allocation Period means the one year period ending on December 31 of each year. In the event that a Investor retires either all or a portion of its Interest or the Fund terminates, such dates will be treated as the last days of the Performance Allocation Period, and the performance allocation will be made accordingly. The General Partner, in its sole discretion, may waive or rebate all or any portion of the performance allocation to which it is entitled for any Investor.

"**Net Loss Carryover**" for any Investor initially shall equal zero, and shall be increased by the amount of Net Losses allocated to such Partner's Capital Account and reduced (but not below zero) by the amount of Net Profits subsequently allocated to such Investor's Capital Account prior to any allocations of expense or performance reallocations to the General Partner. In the event that a Investor with a Net Loss Carryover redeems all or any part of its Capital Account, such Limited Partner's Net Loss Carryover shall be reduced by

an amount equal to the product obtained by multiplying the amount of such Investor's Net Loss Carryover by a fraction, the numerator of which is the amount of the redemption and the denominator of which is the balance in such Investor's Capital Account prior to the redemption. Additional capital contributions shall not affect the Net Loss Carryover of any Investor.

**Fund
Expenses**

The Fund will pay, or reimburse the General Partner for, the Fund's organizational expenses. The General Partner, in its discretion, may amortize some or all of the Fund's organizational expenses over the four-year term of the Fund. The Fund will also bear all the direct costs of administering its business, including, without limitation, brokerage commissions, custodial fees, auditing, accounting and tax preparation fees, expenses, interest on borrowings, governmental fees and taxes, ongoing legal expenses and bookkeeping. The Fund will also bear the expenses of offering and selling its Interests. The General Partner may, in its sole and absolute discretion, pay or reimburse the Fund for any or all such expenses. To the extent that expenses to be borne by the Fund are paid or incurred by the General Partner, the Fund will reimburse the General Partner for such expenses.

**Determination of
Net Asset Value**

The Fund's Administrator (as defined below) will be responsible for determining the net asset value (the "*Net Asset Value*") of the Fund's assets on a monthly basis, based on valuations obtained by the General Partner from third parties.

Withdrawals

A Limited Partner that has held its Interests for at least one year will generally be permitted to make withdrawals from the Fund as of the end of each calendar quarter in minimum denominations of \$50,000 (or at such other times and in such amounts as permitted by the General Partner, in its discretion) by giving at least 30 days' prior written notice to the General Partner or the Administrator. This twelve-month restriction applies separately to each investment in the Fund by an Investor; provided, that, in its sole discretion, the General Partner may agree to permit the withdrawal of an Investor's initial and/or subsequent contributions of capital prior to the termination of any such twelve-month period. Once a withdrawal notice is received by the General Partner or the Administrator, the notice is irrevocable, unless the General Partner, in its discretion, permits otherwise.

Actual fees and expenses, if any, attributable to an Investor's withdrawal may be debited against the withdrawing Investor's Capital Account. Investors may not reduce their Capital Accounts below US \$250,000 as a result of any partial withdrawal (subject to a reduction or a waiver by the General Partner in its sole discretion). Partial withdrawals, of less than ninety percent (90%) of an Investor's Interests, will generally be paid in full within thirty (30) days after the withdrawal date. In the case of withdraws 90% or more of an Investor's Interests, a portion (generally not to exceed 10%) of the withdrawal payment will be retained in the General Partner's discretion pending final reconciliation of valuations for the withdrawal date (generally not to exceed 90 days after withdrawal; *provided* that the General Partner may elect to retain such payments pending completion of the Fund's audit for the fiscal year in which the withdrawal occurs). The payment of withdrawal proceeds also may be delayed if necessary to permit an orderly liquidation of portfolio securities held by the Fund. No interest or other return will be paid on any delayed payment.

The General Partner may establish such holdbacks or reserves (“*Reserves*”) as it deems necessary in its sole and absolute discretion for contingent liabilities and other matters relating to the Fund. In the General Partner’s sole and absolute discretion, the amount of any withdrawal proceeds may be reduced by the amount of such Reserves.

If withdrawals requested with respect to a calendar quarter exceed 20% of the Fund’s Net Asset Value as of the end of that quarter (the “20% Limit”), then the General Partner may, in its discretion, suspend such withdrawals that exceed the 20% Limit, and each Investor that requested a withdrawal for that quarter will receive a pro rata portion of its requested withdrawal amount. Unsatisfied withdrawals will be effected in subsequent calendar quarters; provided, that, such Investor’s unsatisfied withdrawal requests will not be given priority over any other Investor’s withdrawal requests in subsequent periods and that a new 20% Limit will be calculated and applied, for each subsequent calendar quarter.

Withdrawal proceeds may be paid in cash, in kind with securities, or in cash and in kind, at the sole discretion of the General Partner. The General Partner may require any Investor to withdraw from the Fund, or to reduce his, her or its Interests in the Fund, for any or no reason by providing the Investor with ten (10) days’ prior written notice.

**Suspension of
Withdrawals**

The General Partner may suspend the right of any Investor to withdraw all or any portion of his, her or its Capital Account and/or to receive all or any portion of his, her or its withdrawal proceeds or distributions from the Fund if, in the General Partner’s judgment, such a suspension would be in the best interests of the Fund.

**Allocation of
Income, Expenses,
Gains and Losses**

Net profit or net loss (which includes net changes in unrealized appreciation or depreciation of investments and realized investment gains or losses and income and expenses) is allocated at the end of each calendar month (or at other times when a valuation is performed in accordance with the terms of the Partnership Agreement) among the Capital Accounts maintained for Investors in proportion to the relative balances in such Capital Accounts.

Tax Status

The General Partner believes that the Fund will not be subject to federal income tax and will be treated for such purposes as a partnership. Each prospective Investor should consult his, her or its own tax advisor with respect to the federal, state and local income tax consequences of an investment in the Fund.

Fiscal Year

The fiscal year of the Fund ends on December 31 of each year.

Reports

Each Investor will receive audited annual financial statements and unaudited monthly summaries of the Fund’s performance together with copies of his, her or its Schedule K-1 to the Fund’s income tax return. The General Partner, in its sole and absolute discretion, may from time to time and at any time furnish such additional reports to a requesting Investor as the General Partner shall determine. Investors should be aware that the Fund and the General Partner each has general authority to limit the right of any or all Investors to receive or otherwise inspect information held by the General Partner or the Fund. Accordingly, an Investor’s access to Fund information may be significantly more limited than is generally provided for in the governing documents of investment vehicles similar to the

Fund. The Fund reserves the right to make interim reports available solely in electronic form on the web site of the Fund or its Administrator, and Investors hereby agree to accept such electronic delivery in satisfaction of any regulatory requirements under any applicable law.

**Written
Agreements**

The General Partner is expressly authorized under the Partnership Agreement, without any act, consent or approval of or notice to any Investor, on its own behalf or on behalf of the Fund, to enter into, deliver, perform, modify, amend and terminate side letters or other written agreements or instruments to or with one or more Investors which have the effect of altering or supplementing terms described herein or of establishing rights not described herein with respect to such Investor, including, without limitation, modifications of withdrawal rights, fee arrangements and access to Fund information.

SECTION I. INSTRUCTIONS

STEP ONE: READ THIS ENTIRE MEMORANDUM BEFORE INVESTING

A potential Investor (“you”) should carefully read this entire Memorandum, which contains a complete copy of the Partnership Agreement of the Fund. However, the contents of this Memorandum should not be considered to be legal, tax or investment advice, and you should consult with your own counsel and advisors as to all matters concerning an investment in the Fund.

- An Investment in the Fund Involves a Substantial Risk of Loss
- Please Review Certain Risk Factors in Section VI below

STEP TWO: COMPLETE THE INVESTOR QUESTIONNAIRE

The Confidential Investor Questionnaire (the “*Questionnaire*”) is attached to the Subscription Booklet, a copy of which is attached hereto as *Appendix B*. Because the General Partner and the Administrator will rely on the information provided in the Questionnaire, it is essential that you provide accurate, candid and complete information on the Questionnaire. None of the General Partner or the Administrator assumes any obligation to independently verify any information provided in your Questionnaire.

STEP THREE: READ AND SIGN THE SUBSCRIPTION AGREEMENT AND RELATED DOCUMENTS

You will be required to make a number of important representations and warranties in the Subscription Agreement attached to the Subscription Booklet upon which the General Partner and the Administrator will rely. Sign it only after reading it carefully.

STEP FOUR: RETURN THE SUBSCRIPTION BOOKLET

Once you have completed these instructions, return the entire Subscription Booklet and any additional agreements and documents required by the Subscription Booklet to the Administrator. If you have any questions regarding completion of subscription documents, you should contact the Administrator at ALPS Price Meadows/Investor Services Department, apm.investorservices@alpsinc.com, telephone: (425) 454-3770.

If you invest in the Fund, retain this Memorandum for your records.

SECTION II. WHO MAY INVEST; DIRECTORY

A. INTRODUCTION

An investment in the Fund is an illiquid investment in unregistered and non-traded Interests. The Fund will follow an investment strategy which, if unsuccessful, could involve significant losses. The investment could have limited liquidity, there will not be any public market for Interests, and the sale or transfer of Interests will be severely restricted. An investment in the Fund could entail significant market and other risks and may not be appropriate for certain Investors.

The Interests are designed to be exempt from registration under the Securities Act of 1933, as amended (the “*Securities Act*”), pursuant to Regulation D thereunder and the Fund is designed to be excluded from registration under the Investment Company Act of 1940, as amended (the “*Investment Company Act*”), pursuant to Section 3(c)(1) thereunder.

Subscriptions that could jeopardize any of these exemptions, or that might otherwise result in the Fund incurring any liability to taxation or suffering any other pecuniary or administrative disadvantage that the Fund otherwise might not incur, will be rejected by the Board. Prospective Investors generally will be required to satisfy the admission standards described in *Section C* below and to represent that such Investor:

- is investing in the Fund for its own account, for investment purposes only, and not with a view to distributing the Interests;
- is a sophisticated Investor (or has a qualified purchaser representative as described in the subscription materials), capable of evaluating the risks and merits of an investment in the Fund;
- has had access to sufficient information needed to make an investment decision about the Fund;
- can tolerate the illiquidity which is characteristic of privately placed securities in general and this investment in particular;
- if a U.S. Person, satisfies the standards of an “*Accredited Investor*” as set forth in Regulation D under the Securities Act, and a “*Qualified Client*” as set forth in Rule 205-3 under the Advisers Act.

The General Partner, in its sole discretion, may admit a limited number of Investors who do not satisfy all of these standards, provided that the admission of those Investors does not jeopardize the regulatory or exempt registration status of the Fund.

B. MINIMUM INVESTMENT

Prospective Investors who desire to invest in the Fund will be required to make a minimum investment of US \$250,000, subject to the General Partner’s ability, in its sole discretion, to reduce, waive or change the minimum investment amount on an individual basis.

Subscription proceeds will be required to be sent by wire transfer to the Fund’s subscription account or, at the discretion of the General Partner, in kind, at the time of admittance to the Fund for the full amount of such Investor’s investment.

C. ADMISSION STANDARDS

Generally, the Interests will be sold only to U.S. Investors who are both (a) “accredited investors” within the meaning of Rule 501(a) of Regulation D under the Securities Act and (b) “qualified clients” within the meaning of Rule 205-3 under the Advisers Act. See *Appendix A* for a more detailed description of the Fund’s admission standards.

D. SUITABILITY

Satisfaction of the above admission standards does not necessarily mean that the Interests are a suitable investment for a prospective Investor. The General Partner reserves the right to reject the Subscription Agreement of any prospective Investor for whom it appears, in the exclusive discretion of the General Partner, that the Interests may not be a suitable investment. ***You should not, however, rely on the General Partner to determine the suitability of an investment in the Fund for you.***

Each Investor must, either alone or with the assistance of a “purchaser representative” (as described in the Subscription Booklet) have sufficient knowledge and experience in financial and business matters generally and in securities investing in particular to allow him or her to evaluate the merits and risks of investing in the Fund. In addition, each Investor should have sufficient funds, beyond those he or she intends to invest in the Fund, to meet personal needs and contingencies. Investors should expect that they will not have access to the funds invested in the Fund for extended periods and should be capable of absorbing a loss or reduction in the value of their investment.

E. EMPLOYEE BENEFIT PLAN INVESTORS

The purchase of the Interests may be suitable for Employee Benefit Plans (as defined in Section X), subject to their circumstances and investment objectives, and subject to the provisions of their plan documents. A fiduciary considering investing a portion of the assets of an Employee Benefit Plan in the Fund should consider, in consultation with tax and legal advisers, the particular facts and circumstances of such Employee Benefit Plan, and should also consider among other things (i) whether the relevant plan instruments permit investing in a fund such as the Fund, (ii) whether the investment satisfies the diversification requirements of Section 404(a)(1)(C) of ERISA, (iii) whether under Section 404(a)(1)(B) of ERISA, the investment is prudent, considering the nature of the investment in the Fund, its compensation structure, and its relative illiquidity and (iv) whether the Fund or the General Partner or any of their affiliates is a fiduciary or a party in interest in the Employee Benefit Plan. ***The Fund’s use of leverage likely would generate unrelated business taxable income or “UBTI” for Investors that are Employee Benefit Plans. Because most Employee Benefit Plans try to avoid receipt of UBTI, those Investors that are Employee Benefit Plans should consult their tax and legal advisors before investing.***

INVESTORS ARE URGED TO CONSULT WITH THEIR LEGAL, FINANCIAL AND TAX ADVISORS BEFORE INVESTING IN THE FUND.

Directory

Fund	Forward Endurance Fund, L.P. 101 California Street, Suite 1600 San Francisco, California 94111 Telephone: (415) 869-6300
General Partner	Forward Management, LLC 101 California Street, Suite 1600 San Francisco, California 94111 Telephone: (415) 869-6300
Administrator	ALPS Price Meadows 11747 NE First Street, Suite 202 Bellevue, Washington 98005 Telephone: (425) 454-3770
Auditors	PricewaterhouseCoopers LLP 1420 Fifth Avenue, Suite 1900 Seattle, Washington 98101
Prime Broker	Morgan Stanley & Co. 555 California St, Suite 2200 San Francisco, California 94104
Legal Counsel	<i>For the General Partner</i> Paul, Hastings, Janofsky & Walker LLP 55 Second Street, 24th Floor San Francisco, California 94105

SECTION III. INVESTMENT OBJECTIVE AND STRATEGIES

A. INVESTMENT OBJECTIVE

The Fund's investment objective is to achieve significant returns for investors in all market conditions and with very little correlation to broader market indices. The Fund will invest throughout the capital structure of issuers on both the long and short sides in an attempt to achieve this objective.

There is no assurance that the Fund will achieve its investment objective or that Investors will not lose money.

B. INVESTMENT STRATEGY

The Fund intends to implement its investment objective through capitalizing on the go-anywhere, "creative destruction" opportunities present in global capitalism, as characterized by economist Joseph Schumpeter.

The Fund will use equity research driven investment processes within the context of competitive industry analysis, framed by Michael Porter's "Competitive Strategy," to invest long in what the General Partner perceives to be potentially strong investments and short in potentially weak investments across all industry sectors.

Investment positions will be established based upon fundamental analysis as an equity stakeholder in the business. Long positions will be taken based upon expected future price appreciation over the determined investment horizon and sell positions, both to close existing long positions and to open new short positions, will be based upon the expected future valuation decline over the determined investment horizon.

The Fund intends to invest globally in companies of all market capitalizations through investments in equity securities, American Depositary Receipts (ADRs), fixed income instruments, equity futures, options and swaps, and exchange-traded funds (ETFs). The Fund's portfolio may contain as many as 80 different securities depending on the size of the Fund. The Fund will target a maximum position size of 7% at purchase, with a maximum position size of 15% after purchase. The General Partner will not be required to dispose of any securities to maintain the aforementioned guidelines resulting from market movements.

The Fund intends to utilize leverage to achieve its investment objective subject to the following limitation: a maximum use of leverage of 200% of the Fund's Net Asset Value in respect of short positions and 400% in respect of long positions. Under no circumstances would the Fund's overall use of leverage exceed 400% of the Fund's Net Asset Value. These limits could not be increased without prior notice to Investors and the opportunity for Investors to submit a withdrawal request.

The General Partner reserves the right to employ other strategies not specifically discussed here.

SECTION IV.
MANAGEMENT OF THE FUND AND OTHER SERVICES

A. GENERAL PARTNER

Forward Management, LLC, a Delaware limited liability company (the “*General Partner*”), will serve as the general partner of the Fund and will have exclusive power and authority with respect to the management of the Fund. The General Partner will also serve as the discretionary investment manager for the Fund and, in that capacity, will also have authority over the assets of the Fund and responsibility for managing the Fund’s securities portfolios on a daily basis.

Founded in 1998, the General Partner is a San Francisco based privately held investment management firm with more than US \$ 6,793,564,127 billion in assets under management by it and its affiliates for institutional and other clients as of December 31, 2010.

The primary portfolio manager initially assigned to the Fund is David Readerman. Additional portfolio managers and analysts will also be involved in the management of the Fund assets. The General Partner reserves the right to change personnel assigned to the Fund at its sole discretion.

The General Partner is located at 101 California Street, Suite 1600, San Francisco, California 94111.

B. ADMINISTRATOR

The Fund has entered into an administration agreement (“*Administration Agreement*”) with ALPS Price Meadows (“*Administrator*”), to perform certain financial, accounting, administrative and other services on behalf of the Fund, including preparing interim financial statements, calculating the Fund’s investment performance, calculating any fees payable to the General Partner, collecting and processing subscription, withdrawal and transfer paperwork, performing certain anti-money laundering procedures, and preparing interim reports to Investors. For its services, the Administrator is paid its customary rates for providing similar services.

The Administration Agreement may be terminated at any time without penalty by either party on not less than 90 days’ prior written notice or automatically in certain other specified circumstances. The Administration Agreement provides that the Administrator (including its directors, officers, employees, and agents) will not be liable to the Fund or its Investors for, and will be indemnified against, any loss or damage suffered by the Fund or the Administrator in the absence of fraud, gross negligence, breach of fiduciary duty or willful default of the Administrator.

The Administrator will not be responsible for any loss sustained by the Fund by reason of any action or inaction by the Fund or the General Partner related to the Fund’s portfolio management or the offering and sale of Interests. The Administrator will not be responsible for supervising the activities of the Fund or for any loss or claim arising from the failure of the Fund to seek competent legal or tax advice.

The Administrator has no obligation to review, monitor or otherwise ensure compliance by the Fund with any investment policies, restrictions or guidelines applicable to it or any other term or condition of the Fund’s offering documents. The Administrator is a service provider to the Fund and is not responsible for the accuracy of adequacy of this offering circular. The Administrator does not act as guarantor or offeror of the Interests.

SECTION V.
FEES AND EXPENSES

A. MANAGEMENT FEE

For providing services to the Fund, the General Partner will receive a fee equal on an annual basis to 2.00% of value of the capital account (“*Capital Account*”) of each Investor (the “*Management Fee*”). The Management Fee will be paid monthly in arrears on the last day of each calendar month. For periods of less than a month, the Management Fee will be prorated for the days remaining in that calendar month.

The General Partner, in its sole and absolute discretion, may waive, reduce, rebate, modify or otherwise calculate differently, all or a portion of the Management Fee as to an Investor, or may agree with an Investor to other changes in the Management Fee with respect to such an Investor.

B. PERFORMANCE ALLOCATION

The General Partner receives, in arrears, a performance allocation equal in the aggregate to 20% of the net gains (“**Net Gains**”) for the relevant performance allocation period (a “**Performance Allocation Period**”). For purposes of this calculation, Net Gains means the amount by which each Investor’s pro rata share of Net Profits for the applicable period exceeds cumulative net losses which have been carried forward from prior periods for each such Investor, and Performance Allocation Period means the one year period ending on December 31 of each year. In the event that a Investor retires either all or a portion of its Interest or the Fund terminates, such dates will be treated as the last days of the Performance Allocation Period, and the performance allocation will be made accordingly. The General Partner, in its sole discretion, may waive or rebate all or any portion of the performance allocation to which it is entitled for any Investor.

“**Net Loss Carryover**” for any Investor initially shall equal zero, and shall be increased by the amount of Net Losses allocated to such Partner’s Capital Account and reduced (but not below zero) by the amount of Net Profits subsequently allocated to such Investor’s Capital Account prior to any allocations of expense or performance reallocations to the General Partner. In the event that a Investor with a Net Loss Carryover redeems all or any part of its Capital Account, such Limited Partner’s Net Loss Carryover shall be reduced by an amount equal to the product obtained by multiplying the amount of such Investor’s Net Loss Carryover by a fraction, the numerator of which is the amount of the redemption and the denominator of which is the balance in such Investor’s Capital Account prior to the redemption. Additional capital contributions shall not affect the Net Loss Carryover of any Investor.

C. FUND EXPENSES

The Fund will pay, or reimburse the General Partner for, the Fund’s organizational expenses. The General Partner, in its discretion, may amortize some or all of the Fund’s organizational expenses over the four-year term of the Fund. The Fund will also bear all the direct costs of administering its business, including, without limitation, brokerage commissions, custodial fees, auditing, accounting and tax preparation fees, expenses, interest on borrowings, governmental fees and taxes, ongoing legal expenses and bookkeeping. The Fund will also bear the expenses of offering and selling its Interests. The General Partner may, in its sole and absolute discretion, pay or reimburse the Fund for any or all such expenses. To the extent that expenses to be borne by the Fund are paid or incurred by the General Partner, the Fund will reimburse the General Partner for such expenses.

D. WRITTEN AGREEMENTS

The General Partner is expressly authorized under the Partnership Agreement, without any act, consent or approval of or notice to any Investor, on its own behalf or on behalf of the Fund, to enter into, deliver, perform, modify, amend and terminate side letters or other written agreements or instruments to or with one or more Investors which have the effect of altering or supplementing terms described herein or of establishing rights not described herein with respect to such Investor, including, without limitation, modifications of withdrawal rights, fee arrangements and access to Fund information.

SECTION VI. CERTAIN RISK FACTORS

All securities investments present a risk of loss of capital, but an investment in the Fund may involve significant risks not associated with other investment vehicles. The General Partner will follow an investment strategy that, if unsuccessful, could involve substantial losses. The Fund's portfolio will be subject to wide swings in value. Although the General Partner has the flexibility to react to changing market conditions, changes in market conditions or a company's situation could involve losses. The General Partner hopes to manage this risk of loss through a careful selection of investments. However, no guarantee or representation is made that the Fund's investment strategy will be successful, or that the Fund will achieve its investment objective.

Investors should consider the Fund as a supplement to an overall investment program and should only invest in the Fund if they are willing to undertake the considerable risks involved. In addition, Investors who are subject to income tax should be aware that an investment in the Fund may create taxable income or tax liabilities in excess of cash distributions to pay such liabilities.

Prospective Investors should carefully consider, among other factors, the risks described below. These risk factors are not meant to be an exhaustive listing of all potential risks associated with an investment in the Fund.

A. RISKS ASSOCIATED WITH RELIANCE ON THE GENERAL PARTNER

The management of the Fund will be vested exclusively with the General Partner. Persons should not invest in the Fund unless they are willing to entrust all aspects of the management of the Fund and their investments to the complete discretion of the General Partner. Here are some of the risks an Investor should consider:

1. OPERATING HISTORY

The Fund is newly formed and has no operating history. The past investment performance of portfolios managed by the General Partner may not be construed as an indication of the future results of an investment in the Fund.

2. INVESTMENT SELECTION

The success of the Fund's investment strategy will depend on the management, skill and acumen of the General Partner. Investors will have no opportunity to select or evaluate in advance any of the Fund's investments or strategies.

3. NO DIRECT INPUT INTO FUND AFFAIRS

Except as otherwise specified in this Memorandum or the Fund's Partnership Agreement, Investors generally will not take part in the conduct, management, operation or control of the Fund or the Fund's business, such duties being carried out by the General Partner.

4. CHANGES IN INVESTMENT STRATEGIES OR POLICIES

The Partnership Agreement does not limit the investment strategy or policies of the Fund to what is described in this Memorandum. The General Partner has wide latitude to invest or trade the Fund's assets, to pursue any particular strategy or tactic or to change the Fund's emphasis, objectives, policies and/or strategy, all without obtaining the approval of the Investors.

5. PROFIT ALLOCATION

The payment of a percentage of the Fund's net profits to the General Partner may create an incentive for the General Partner to cause the Fund to make investments that are riskier than it would otherwise make. In addition, because the General Partner's Performance Allocation is calculated on a basis which includes unrealized appreciation of the Fund's assets, the Performance Allocation may be greater than if that allocation were calculated based solely on realized gains.

6. LACK OF REGULATORY OVERSIGHT

Even though the General Partner is registered as an investment adviser with the SEC, the Fund's activities will generally not be subject to the same degree of regulatory oversight to which other investment vehicles are subject. While the Fund may be considered similar to an investment company, the Fund is not registered as such under the Investment Company Act in reliance upon exclusions available to privately offered investment funds. Accordingly, the provisions of the Investment Company Act (which, among other things, require investment companies to have disinterested directors and to maintain their assets and securities in the custody of a qualified custodian) are not applicable to the Fund.

In addition, the Interests offered pursuant to this Memorandum have not been registered under the Securities Act or the securities laws of any state or country. No state or federal authority, or any regulatory agency in any country, has reviewed, passed on or endorsed the merits of this offering or the adequacy or accuracy of this Memorandum.

7. LIMITED ACCESS TO FUND INFORMATION

Investors have no right to obtain information about the Fund's current investments or strategies except as may be given in the periodic reports discussed elsewhere in this Memorandum. As a general matter, the Fund does not expect to make its holdings available to Investors except on a monthly basis.

8. VALUATION OF FUND INVESTMENTS

The Fund's investments will be valued periodically by the General Partner using third party sources for purposes of calculating, among other things, the Net Asset Value of the Fund and, thereby, the Management Fees. The value assigned to an investment at a certain time in accordance with the Fund's valuation procedures may differ from the value that the Fund is ultimately able to realize. In such a case, the Management Fees paid will not be subject to reversal.

9. CONFLICTS OF INTEREST

Decisions made by the General Partner will be subject to a number of inherent conflicts of interests. Before investing, prospective Investors should review "Conflicts of Interest" at Section VII.

B. RISKS ASSOCIATED WITH THE FUND'S CURRENT INVESTMENT STRATEGY

1. GENERAL INVESTMENT AND MARKET RISKS

There can be no guarantee of the success of the General Partner's investment strategy and the Fund's activities may be significantly and adversely affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, and national and international political circumstances. These factors may affect the level and volatility of securities prices and the liquidity of the Fund's investments. Unexpected volatility or illiquidity could impair the Fund's profitability or result in losses.

The Fund's investments may have limited liquidity. In addition, the Fund may invest in a limited number of securities and instruments, and as a consequence, the aggregate returns realized by the Investors may be substantially adversely affected by the unfavorable performance of a small number of such investments. If the General Partner elects to concentrate the Fund's investments in a particular area or region, the Fund's portfolio then will become more susceptible to fluctuations in value resulting from adverse economic conditions affecting that particular area or region. See "Concentration of Investments" below.

2. HIGH PORTFOLIO TURNOVER AND RECOGNITION OF GAINS

The Fund's investment strategy may result in a short holding period before investments are rolled over into new investments or sold. This will cause the recognition of any investment gains on a more frequent basis than other investment strategies. Many of those gains will not likely qualify for the holding period needed for long-term capital gains tax treatment. Therefore, taxable Investors in this Fund may have a greater need to pay regular income taxes (out of their own resources or by requesting withdrawals) than compared to other investment strategies that hold investments longer.

3. EQUITY SECURITIES

The purchaser of an equity security typically receives an ownership interest in the company as well as certain voting rights. The owner of an equity security may participate in a company's success through the receipt of dividends, which are distributions of earnings by the company to its owners. Equity security owners may also participate in a company's success or lack of success through increases or decreases in the value of the company's shares as traded in the public trading market for such shares. Publicly traded equity securities are subject to equity market risk. This is the risk that stock prices will fluctuate and can decline and reduce the value of the Fund's portfolio. Equity securities fluctuate in value, often based on factors unrelated to the value of the issuer of the securities, and such fluctuations can be pronounced. The equity securities acquired by the Fund may fail to appreciate and may decline in value or become worthless. Equity securities generally take the form of common stock or preferred stock. Common stockholders are generally subordinated in right of payment, both with respect to dividends and distributions in liquidation, to preferred stock and other senior equity securities and debt obligations and creditors of the issuer. Dividends on common stocks are not fixed but are declared at the discretion of an issuer's board of directors. There is no guarantee that the issuers of common stocks in which the Fund invests will declare dividends in the future or that if declared they will remain at those levels or increase over time. Preferred stockholders typically receive greater dividends but may receive less appreciation than common stockholders and may have lesser or greater voting rights as well. Preferred stocks do not offer as great a degree of protection of capital or assurance of continued income as investments in corporate debt securities. In addition, preferred stocks are subordinated in right of payment to all debt obligations and creditors of the issuer, and convertible preferred stocks may be subordinated to other preferred stock of the same issuer. Equity securities may also include convertible securities, warrants or rights. Convertible securities typically are debt securities or preferred stocks which are convertible into common stock after certain time periods or under certain circumstances. Convertible debt securities and preferred stocks may depreciate in value if the market value of the underlying equity security declines or if rates of interest increase. In addition, convertible debt securities are often subordinated to the claims of some or all of the other creditors

of the corporation. Securities that are mandatorily convertible or convertible at the option of the issuer may limit the potential for capital appreciation and, in some instances, are subject to complete loss of invested capital. Warrants or rights give the holder the right to purchase a common stock at a given time for a specified price. If warrants or rights are not exercised prior to their stated expiration, they will expire worthless, and such investments run the risk of losing the entire investment and causing significant losses in a relatively short period of time.

4. OPTIONS

The Fund may buy and sell put and call options on indices. Although successful trading in options contracts requires many of the same skills required for successful securities trading, the risks involved are somewhat different. For example, if the Fund were to write a covered call option, the Fund would give up the opportunity, while the option is in effect, to realize gain from any price increase (above the option exercise price) in the underlying security. In addition, the Fund's ability to sell the underlying security is limited while the option is in effect unless the Fund effects a closing purchase transaction. The purchase of an option runs the risk of losing the entire investment, thereby causing significant losses to the account in a relatively short period of time.

(i) *Options Trading Is Speculative And Risky.* The trading of options is highly speculative and may entail more risk than those present when investing in other securities. Prices of options are generally more volatile than prices of other securities. Purchasing options would allow the Fund to speculate on market fluctuations of securities and securities exchange indices while investing only a small percentage of the value of the securities underlying the option. A change in the market price of the underlying securities or underlying market index will cause a much greater percentage change in the price of the option contract. In addition, the Fund will lose the premium it paid to purchase an option if the Fund does not sell or exercise the option. If the Fund sells options and must deliver the underlying securities at the exercise price, the Fund has a theoretically unlimited risk of loss if the price of the underlying securities increases. If the Fund must buy the underlying securities, the Fund risks the loss of the difference between the market price of the underlying securities and the exercise price. Any gain or loss derived from the sale or exercise of an option will be reduced or increased, respectively, by the amount of the premium paid. The expenses of option investing include commissions payable on the purchase and on the exercise or sale of an option.

(ii) *Options Not Traded On An Exchange Involve Additional Risk.* The Fund may buy or sell stock or index options not traded on a securities exchange. Options not traded on an exchange are not issued by the Options Clearing Corporation. The risk of nonperformance by the obligor on such an option may be greater and the ease with which the Fund can dispose of such an option may be less than in the case of an exchange-traded option issued by the Options Clearing Corporation.

5. FUTURES CONTRACTS

The Fund may invest in futures contracts, which may subject the Fund to certain special significant risks as described below:

(i) *Speculative and Volatile.* Futures contracts prices are highly volatile. Price movements of futures contracts are influenced by, among other things, changing supply and demand relationships; government trade, fiscal, monetary and exchange programs and policies; national and international political and economic events; and changes in interest rates. In addition, governments from time to time intervene, directly and by regulation in certain markets, particularly in currencies and gold. Such intervention is often intended to influence price directly. None of these factors can be controlled by the General Partner and no assurances can be given that advice will result in profitable trades for the Fund or that the Fund will not incur substantial losses.

(ii) *Highly Leveraged.* The low margin deposits normally required in futures trading permit an extremely high degree of leverage; margin requirements for futures trading being in some cases as little as 2% of the face value of the contracts traded. For example, if at the time of sale 10% of the price of the futures contract is deposited as margin, a 10% decrease in the price of the futures contract would, if the contract was then closed out, result in a total loss of the margin deposit before any deduction for the trading commission. A decrease of more than 10% would result in a loss of more than the total margin deposit. Accordingly, a relatively small price movement in a futures contract may result in immediate and substantial loss to the Fund. Like other leveraged investments, any trade may result in losses in excess of the amount invested.

(iii) *Illiquidity.* United States commodity exchanges impose “daily limits” on the amount by which the price of most futures contracts traded on such exchanges may vary during a single day. Daily limits prevent trades from being executed during a given trading day at a price above or below the daily limit. Once the price of a futures contract has moved to the limit price, it may be difficult, costly or impossible to liquidate a position. Such limits could prevent the General Partner from promptly liquidating unfavorable positions and restrict its ability to exercise or offset commodity options held in the Fund’s accounts. In addition, even if futures prices have not moved the daily limit, the General Partner may be unable to execute trades at favorable prices if the liquidity in the market is not adequate. Daily limits have been applicable to bond futures for some time and have recently been imposed on stock index futures. It is also possible for an exchange or the United States Commodity Futures Trading Commission (the “CFTC”) to suspend trading in a particular contract, order immediate settlement of a particular contract or order that trading in a particular contract be conducted for liquidation only.

(iv) *Position limits.* The CFTC and the United States commodities exchanges have established limits referred to as “speculative position limits” on the maximum net long or net short speculative positions that any person may hold or control in any particular futures or options contracts traded on United States commodities exchanges. All accounts (proprietary or client) owned or managed by the General Partner will be combined for position limit purposes. The General Partner could be required to liquidate positions held for the Fund in order to comply with such limits. Any such liquidation could result in substantial costs to the Fund.

6. SWAP AGREEMENTS

The Fund may enter into one or more swap agreements. Swap agreements are two-party contracts entered into primarily by institutional investors for periods ranging from a few weeks to more than a year. In a standard swap transaction, two parties agree to exchange the returns earned on specific assets, such as the return on, or increase in value of, a particular dollar amount invested at a particular interest rate, in a particular foreign currency, or in a “basket” of securities representing a particular index. A swap contract may not be assigned without the consent of the counter-party, and may result in losses in the event of a default or bankruptcy of the counterparty. Swap agreements are traded in the over-the-counter market and may be considered to be illiquid. Because swap contracts are reliant upon the performance of the counterparty, such contracts are subject to substantial counterparty risk.

7. RECENT DEVELOPMENTS IN GLOBAL CREDIT AND EQUITY MARKETS

Global credit and equity markets have recently experienced significant market events, including decreasing liquidity and declining market values. Increasing credit and valuation problems in debt markets and the mass liquidation of investment portfolios across all markets, among other factors, have generated extreme volatility and illiquidity in worldwide capital markets. This volatility and illiquidity has extended to the global credit and equity markets generally and has been exacerbated by, among other things, growing uncertainty regarding the extent of the problems in the mortgage industry and financial institutions, decreased risk tolerance by investors, significantly tightened availability of credit and global deleveraging. The continuation of recent market conditions and uncertainty and further deterioration could result in declines in the market values of the investment assets held by the Fund. The duration and ultimate effect of recent market

conditions cannot be predicted, nor is it known whether or the degree to which such conditions may worsen. Such declines could prevent the Fund from successfully executing the Fund's investment strategy or may require the Fund to dispose of investments at a loss while such adverse market conditions prevail.

8. NON-U.S. INVESTMENTS INVOLVE MORE RISKS

Although the Fund will primarily invest in U.S. securities, the Fund may invest in non-U.S. securities and U.S. dollar denominated American Depositary Receipts and other similar types of Depositary Receipts that represent ownership interests in non-U.S. companies and that are listed on a U.S. securities exchange, quoted on a U.S. automated quotation system or that are traded in the U.S. over the counter market, all of which involve unusual risk not typically associated with investing in U.S. companies. Investments in securities of non-U.S. issuers and securities denominated or whose prices are quoted in non-U.S. currencies pose currency exchange risks, including the risks of currency blockage, devaluation, non-exchangeability and other exchange control regulations. Non-U.S. economies may differ unfavorably from the U.S. economy in growth of gross national product, rate of inflation, rate of savings and capital reinvestment, resource self-sufficiency and balance of payments positions, and in other respects. The value and marketability of the Fund's investments in some non-U.S. countries could be materially reduced by expropriation or confiscatory taxation, nationalization, limitations on the removal of funds or other assets of the Fund's accounts, political or social instability, or diplomatic developments. Less information may be available regarding securities of non-U.S. issuers, and non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to, or as uniform as, those of U.S. companies. In addition, securities of some non-U.S. companies are less liquid and their prices are more volatile than securities of comparable U.S. companies and may be subject to a greater risk of market manipulation. Transaction costs of investing in non-U.S. securities markets are generally higher than in the U.S., and there is generally less government supervision and regulation of non-U.S. exchanges, brokers and issuers than there is in the U.S. The Fund might have greater difficulty or expense taking appropriate legal action in non-U.S. courts. Non-U.S. markets also have different clearance and settlement procedures, which in some markets have at times failed significantly to keep pace with the volume of transactions, thereby creating substantial delays and settlement failures that could adversely affect the Fund's performance.

9. NON-U.S. INVESTMENTS HAVE LESS REGULATORY OVERSIGHT AND PROTECTION

The securities of non-U.S. issuers held by the Fund are generally not registered under, nor are those issuers subject to the reporting requirements of, the U.S. securities laws and regulations. Accordingly, there may be less publicly available information about the securities and about the non-U.S. company or government issuing them or the non-U.S. board of trade clearing them than is available about a U.S. company, government entity or board of trade. Non-U.S. companies and non-U.S. boards of trade are not generally subject to accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to U.S. companies. Non-U.S. government supervision of stock exchanges, boards of trade, securities brokers and issuers of securities is generally less stringent than supervision in the U.S. The investments may also be subject to withholding taxes imposed by the applicable country's taxing authority.

10. SHORT-TERM INVESTMENTS

Under normal market conditions, the Fund generally will maintain a portion of its assets in money market funds, U.S. Government securities, or other cash equivalent investments, pending investment in other securities or for purposes of liquidity. In addition, during periods when the General Partner believes that acceptable investments are not available, or under unusual market conditions, a substantial portion (or all) of the Fund's assets may be temporarily invested in such securities.

11. ASSET BACKED SECURITIES

Consistent with the Fund's investment objectives and policies, the Fund may invest in certain asset-backed securities. Holders of such securities receive an interest in the assets of the obligor in order to secure payment of the obligations evidenced by such debt securities. The security interest is in the form of a lien on certain assets of the obligor, such as the obligor's cash, accounts receivables, inventory, equipment, real estate and intellectual property.

Asset-backed securities are generally subject to the risks of the underlying assets. In addition, asset-backed securities, in general, are subject to certain additional risks including depreciation, damage or loss of the collateral backing the security, failure of the collateral to generate the anticipated cash flow or in certain cases more rapid prepayment because of events affecting the collateral, such as accelerated prepayment of loans backing these securities or destruction of equipment subject to equipment trust certificates.

12. BANKRUPTCY ISSUES

Some of the companies in which the Fund invests may become involved in bankruptcy. There are a number of significant risks inherent in the bankruptcy process in the United States. These include the risks some of which are described below. First, many events in a bankruptcy are the product of contested matters and adversarial proceedings and are beyond the control of the creditors. While creditors are generally given an opportunity to object to significant actions, there can be no assurance that a bankruptcy court in the exercise of its broad powers would not approve actions that would be contrary to the interests of the Fund. Second, the effect of a bankruptcy filing on a company may adversely and permanently affect the company. The company may lose its market position and key employees and otherwise become incapable of restoring itself as a viable entity. If for this or any other reason the proceeding is converted to a liquidation, the liquidation value of the company may not equal the liquidation value that was believed to exist at the time of the investment. Third, the duration of a bankruptcy proceeding is difficult to predict. A creditor's return on investment can be adversely impacted by delays while the plan of reorganization is being negotiated, approved by the creditors and confirmed by the bankruptcy court and until the plan ultimately becomes effective. Fourth, the administrative costs in connection with a bankruptcy proceeding are frequently high and will be paid out of the debtor's estate prior to any return to creditors. For example, if a proceeding involves protracted or difficult litigation, or turns into a liquidation, substantial assets may be devoted to administrative costs. Fifth, bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization. Because the standard for classification is vague, there exists the risk that the Fund's influence with respect to the class of securities it owns can be lost by increases in the number and amount of claims in that class or by different classification and treatment. Sixth, in the early stages of the bankruptcy process, it is often difficult to estimate the extent of, or even to identify, any contingent claims that might be made. Seventh, especially in the case of investments made prior to the commencement of bankruptcy proceedings, creditors can lose their ranking and priority if they exercise "domination and control" of a debtor and other creditors can demonstrate that they have been harmed by such actions. Eighth, certain claims that have priority by law (for example, claims for taxes) may be quite substantial.

In addition, under certain circumstances, payments to the Fund and distributions by the Fund to its Investors may be reclaimed if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

13. PARTICIPATION ON CREDITORS' COMMITTEES

If a company in which the Fund has invested subsequently becomes involved in bankruptcy or becomes financially troubled, the Fund may participate on committees formed by creditors to negotiate with the management of the company. The Fund may also seek to negotiate directly with debtors with respect to restructuring issues. In the situation where the Fund does choose to join a creditors' committee, the Fund would likely be only one of many participants, each of whom would be interested in obtaining an outcome that is in its

individual best interests. There can be no assurance that the Fund would be successful in obtaining results most favorable to it in such proceedings, although the Fund may incur significant legal fees, costs and other expenses in attempting to do so. As a result of participation by the Fund on such committees, the Fund may be deemed to have duties to other creditors represented by the committees, which might thereby expose the Fund to liability to such other creditors who disagree with the Fund's actions. The Fund also may not be offered the opportunity to serve on creditors' committees and yet would be fully subject to results or rights granted by a bankruptcy court at the request of the creditors' committee. Such results or rights may be adverse to the Fund's interests.

14. LITIGATION

The General Partner may invest in companies involved in litigation where the outcome of a lawsuit may have a significant impact on a company in the very short term. Typically, these situations create significant uncertainty about the future of an enterprise and, consequently, allow for mispricing of the underlying securities. From time to time, the General Partner may be long, short or hedged in securities of companies involved in these situations. This will be the case in so far as the General Partner can create positions that have attractive risk reward parameters based on the expected outcome of the legal event.

15. INTEREST RATES

The values of some or all of the Fund's investments may change in response to movements in interest rates. If rates rise, the values of debt securities generally fall. The longer the average duration of the Fund's investment portfolio, the greater the change in value. Duration is a measure of the expected life of a fixed income security that was developed as a more precise alternative to the concept of "term to maturity." Duration incorporates a bond's yield, coupon interest payments, fixed maturity, call and put features and prepayment exposure into one measure. Traditionally, a fixed-income security's "term to maturity" has been used to determine the sensitivity of the security's price to changes in interest rates (which is the "interest rate risk" or "volatility" of the security). However, "term to maturity" measures only the time until a fixed-income security provides its final payment, taking no account of the pattern of the security's payments prior to maturity. Duration is used in the management of the portfolio as a tool to measure interest rate risk. For example, a portfolio with a duration of 1.5 would be expected to change in value 1.5% for every 1.0% move in interest rates. The values of any of the Fund's investments may also decline in response to events affecting the issuer or its credit rating. The value of some commercial mortgage-backed securities and asset-backed securities in which the Fund invests also may fall because of unanticipated levels of principal prepayments that can occur when interest rates decline. Principal and interest payments on such securities depend on payment of the underlying loans, though issuers may support creditworthiness via letters of credit or other instruments.

16. MATURITY RISK

Interest rate risk will generally affect the price of a debt security more if the security has a longer maturity. Debt securities with longer maturities will therefore be more volatile than other fixed income securities with shorter maturities. Conversely, debt securities with shorter maturities will be less volatile but generally provide lower returns than municipal securities with longer maturities. The average maturity of each of the Fund's debt security investments will affect the volatility of that Fund's value.

17. CREDIT RISK

Credit risk is the risk that the issuer of a debt security will not be able to pay principal and interest when due. Rating agencies assign credit ratings to certain debt securities to indicate their credit risk. The price of a debt security will generally fall if the issuer defaults on its obligation to pay principal or interest, the rating agencies downgrade the issuer's credit rating or other news affects the market's perception of the issuer's credit risk.

18. CERTAIN RISKS OF DEBT SECURITIES

Debt securities are subject to credit and interest rate risks. “*Credit risk*” refers to the likelihood that an issuer will default in the payment of principal and/or interest on an instrument. Financial strength and solvency of an issuer are the primary factors influencing credit risk. In addition, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk may change over the life of an investment and securities which are rated by rating agencies are often reviewed and may be subject to downgrade. “*Interest rate risk*” refers to the risks associated with market changes in interest rates. Interest rate changes may affect the value of a debt instrument indirectly (especially in the case of fixed rate securities) and directly (especially in the case of instruments whose rates are adjustable). In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable rate instruments also react to interest rate changes in a similar manner although generally to a less degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors). Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules.

19. HEDGING TRANSACTIONS

For a variety of reasons, the General Partner may not seek to hedge certain (or any) portfolio holdings, or may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent the Fund from achieving the intended hedge or expose the Fund to increased risk of loss.

The success of the hedging strategy of the Fund will be subject to the General Partner’s ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. As markets change or time passes, the success of the Fund’s hedging strategy will be subject to the General Partner’s ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While the Fund may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Fund than if it had not engaged in any such hedging transactions.

20. COUNTERPARTY RISK

Some of the markets in which the Fund may effect transactions are “over-the-counter” or “interdealer” markets. The participants in such markets are not always subject to the credit evaluation and regulatory oversight to which members of “exchange-based” markets are subject. This exposes the Fund to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not *bona fide*) or because of a credit or liquidity problem, thus causing the Fund to suffer a loss. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Fund has concentrated its transactions with a single or small group of counterparties. The Fund is not restricted from concentrating any or all of its transactions with one counterparty. The ability of the Fund to transact business with any one or number of counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Fund. The General Partner attempts to manage this risk by selecting counterparties that it deems worthy through its counterparty assessment processes, but there can be no assurance that these processes will exclude a counterparty that could default on its obligations.

21. INTEREST RATE SWAPS

Interest rate swap agreements are a specialized form of a swap agreement, used to obtain or preserve a desired return or spread at a lower cost than through a direct investment in an instrument that yields the desired return or spread. Swaps also may protect against changes in the price of securities that an investor

anticipates buying or selling at a later date. In a standard interest rate swap transaction, two parties agree to exchange their respective commitments to pay fixed or floating rates on a predetermined notional amount. The swap agreement notional amount is the predetermined basis for calculating the obligations that the swap counterparties have agreed to exchange. Under most interest rate swap agreements, the obligations of the parties are exchanged on a net basis. The two payment streams are netted out, with each party receiving or paying, as the case may be, only the net amount of the two payments.

Interest rate swap agreements are usually entered into at a zero net market value of the swap agreement commitments. The market values of the underlying commitments will change over time resulting in one of the commitments being worth more than the other and the net market value creating a risk exposure for one counterparty to the other.

Interest rate swap agreements may include embedded interest rate caps, floor and collars. In interest rate cap transactions, in return for a premium, one party agrees to make payments to the other to the extent that interest rates exceed a specified rate, or cap. Interest rate floor transactions require one party, in exchange for a premium to agree to make payments to the other to the extent that interest rates fall below a specified level, or floor. In interest rate collar transactions, one party sells a cap and purchases a floor, or vice versa, in an attempt to protect itself against interest rate movements exceeding given minimum or maximum levels or collar amounts.

The Fund will enter into interest rate swap agreements only if the claims-paying ability of the other party or its guarantor is considered to be investment grade by the General Partner. Generally, the unsecured senior debt or the claims-paying ability of the other party or its guarantor must be rated in one of the three highest rating categories of at least one NRSRO at the time of entering into the transaction. If there is a default by the other party to such a transaction, the Fund will have to rely on its contractual remedies (which may be limited by bankruptcy, insolvency or similar laws) pursuant to the agreements related to the transaction. In certain circumstances, the Fund may seek to minimize counterparty risk by requiring the counterparty to post collateral.

22. CREDIT DEFAULT SWAPS

The Fund may enter into credit default swap agreements. The “buyer” in a credit default contract is obligated to pay the “seller” a periodic, stream of payments over the term of the contract provided no event of default has occurred. In the event of default, the seller must pay the buyer the “par value” (full notional value) of the reference obligation in exchange for the reference obligation. The Fund may be either the buyer or seller in the transaction. If the fund is a buyer and no event of default occurs, the fund loses its investment and recovers nothing. However, if an event of default occurs, the buyer receives full notional value for a reference obligation that may have little or no value. As a seller, the Fund receives a fixed rate of income throughout the term of the contract, provided there is no default event. If an event of default occurs, the seller may pay the notional value of the reference obligation. The value of the reference obligation received by the seller, coupled with the periodic payments previously received may be less than the full notional value it pays to the buyer, resulting in a loss of value to the Fund. Credit default swaps involve greater risks than if the Fund had invested in the reference obligation directly. In addition to general market risks, credit default swaps are subject to illiquidity risk, counterparty risk and credit risks.

23. SECURITIES LENDING AND BORROWING INVOLVE INSOLVENCY AND CREDIT RISKS

The Fund may lend securities to securities brokers and other institutions, or borrow securities from securities brokers or other institutions to effect short sales. If the other party becomes insolvent or bankrupt, the Fund could experience delays and costs in recovering payment or the securities. If, in the meantime, the value of securities changes, the Fund could suffer more losses.

24. CONCENTRATION OF INVESTMENTS

The Partnership Agreement imposes no limits on the concentration of the Fund's investments in particular countries, regions, securities, industries, sectors or any other category and at times the Fund expects to hold a relatively small number of securities positions, each representing a relatively large portion of the Fund's capital. Losses incurred in those positions could have a material adverse effect on the Fund's overall financial condition. The Fund's investment portfolio (because of size, available investment capital, investment strategy and other considerations) may be confined to the securities of relatively few issuers or industries. Further, the Fund is not required to maintain any minimum level of capital. As a result of losses or withdrawals, the Fund may not have sufficient funds to diversify its investments. When investments are concentrated in several relatively large security positions or industries relative to the Fund's capital, a loss in any one position or a downturn in a sector in which the Fund is invested could materially reduce the Fund's performance.

25. LIMITED LIQUIDITY OF CERTAIN INVESTMENTS

The Fund may invest its assets in securities that are illiquid, not readily marketable or non-publicly traded. The Fund may not be able to liquidate those investments if the need should arise, and its ability to realize gains, or to avoid losses in periods of rapid market activity, may therefore be affected. The value assigned to such securities for purposes of determining net profits and net losses may differ substantially from the value the Fund is ultimately able to realize. In the Board's discretion, the Fund may effect in kind distributions to Investors in the form of such illiquid, not readily marketable or non-publicly traded securities. Investors that receive such in kind distributions may not be able to dispose of such securities for an indefinite period of time.

26. INSTITUTIONAL RISKS AND CUSTODIAL RISKS

The institutions, including brokerage firms and banks, with which the Fund does business, or to which securities have been entrusted for custodial purposes, may encounter financial difficulties that impair the operational capabilities or the capital position of the Fund. There is a risk that any of such counterparties could become insolvent. The insolvency of the Fund's counterparties is likely to impair the operational capabilities or the assets of the Fund. Although the General Partner intends to monitor the Fund's exposure to the counterparties the Fund uses, if one or more of the Fund's counterparties were to become insolvent or the subject of liquidation proceedings, there exists the risk that the recovery of the Fund's securities and other assets from such counterparty will be delayed or be of a value less than the value of the securities or assets originally entrusted to such counterparty.

27. AVAILABILITY AND ACCURACY OF INFORMATION

The General Partner will select investments for the Fund on the basis of information and data derived from firsthand research by the General Partner and, for U.S. public companies, filed by the issuers of such securities with the SEC. Although the General Partner intends to evaluate such information and data and to seek independent corroboration when the General Partner considers it appropriate and when it is reasonably available, the General Partner will not in many cases be in a position to confirm the completeness, genuineness or accuracy of such information and data.

C. RISKS ASSOCIATED WITH THE FUND'S INVESTMENT TECHNIQUES

The Fund may trade and invest in various types of securities, including, without limitation, common and preferred stocks, options, future, warrants, bonds, notes, bills, rights and derivatives. Except as provided in this Memorandum, the Partnership Agreement imposes no limits on the types of securities or other instruments in which the Fund may take positions, the type of positions it may take, or the concentration of the Fund's investments.

1. SHORT SALES

The Fund may engage in short sales. Short selling involves selling securities that may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. Because the borrowed securities must be replaced by purchases at market prices in order to close out the short position, any appreciation in the price of the borrowed securities can result in a loss. It may be impossible for the Fund to borrow securities at the most desirable time to make a short sale, particularly in illiquid securities markets. In addition, rules that prohibit short sales of securities at prices below the last sale price may prevent the Fund from executing short sales of securities at the most desirable time. If the prices of securities sold short increase, the Fund may be required to provide additional funds or collateral to maintain the short positions. This could require the Fund to liquidate other investments to provide additional margin, and those liquidations might not be at favorable prices. In other situations, the lender of securities can request return of the borrowed securities and the Fund may not be able to borrow those securities from other lenders. This would cause a “buy-in” of the short positions, which may be disadvantageous to the Fund. A short sale involves the risk of a theoretically unlimited increase in the market price of the particular investment sold short, which could result in the inability of the Fund to cover the short position, and of theoretically unlimited potential for loss to the Fund’s accounts.

2. AVAILABILITY OF AND ABILITY TO ACQUIRE SUITABLE INVESTMENTS

While the General Partner believes that many attractive investments of the type in which the Fund may invest are currently available and can be identified, there can be no assurance that such investments will be available when the Fund commences investment operations, or that available investments will meet the Fund’s investment criteria. Furthermore, the Fund may be unable to find a sufficient number of attractive investment opportunities to meet its investment objective.

3. LEVERAGE RISK

Leverage may result from certain transactions, including the use of derivatives, borrowing and reverse repurchase agreements. Leverage may exaggerate the effect of a change in the value of the Fund’s portfolio securities, causing the Fund to be more volatile than if leverage was not used. The Fund may, but is not required to, reduce leverage risk by either segregating an equal amount of liquid assets or “covering” the transactions that introduce such risk. Leverage also may be embedded within a particular security, based on the issuer’s capital structure. The Fund intends to utilize leverage to achieve its investment objective subject to the following limitation: a maximum use of leverage of 200% of the Fund’s Net Asset Value in respect of short positions and 400% in respect of long positions. Under no circumstances would the Fund’s overall use of leverage exceed 400% of the Fund’s Net Asset Value. These limits could not be increased without prior notice to Investors and the opportunity for Investors to submit a withdrawal request.

4. HIGH BROKERAGE AND OTHER TRANSACTIONAL EXPENSES

The Fund’s activities may at times involve a high level of trading (including significant short-term trades) resulting in very high portfolio turnover that may generate substantial transaction costs. These costs will be borne by the Fund regardless of its profitability. The expenses of the Fund may be greater than the total fees charged in other comparable investment vehicles.

5. TRADING DERIVATIVE INSTRUMENTS INVOLVES CREDIT RISK

The Fund may buy and sell derivative securities in “over-the-counter” or “interdealer” markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of “exchange-based” markets. This exposes the Fund to the risk that a counterparty will not settle a transaction in accordance with its terms because the counterparty has a credit or liquidity problem. Delays in

settlement may also result from disputes over the terms of the contract (whether or not *bona fide*) because such markets may lack the established rules and procedures for settlement of disputes among market participants available in “exchange-based” markets. These problems may cause the Fund to suffer loss due to adverse market movements while replacement transactions are executed or otherwise. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Fund have concentrated their transactions with a single or small group of counterparties. In addition, derivative instruments may be difficult to value accurately. Any valuation difficulties could adversely affect the Investors.

6. OPTIONS AND WARRANTS

The Fund may buy and sell put and call options or warrants on common stocks and stock indices. Although successful trading in options contracts and warrants requires many of the same skills required for successful securities trading, the risks involved are somewhat different. For example, if the Fund were to write a covered call option, the Fund would give up the opportunity, while the option is in effect, to realize gain from any price increase (above the option exercise price) in the underlying security. In addition, the Fund’s ability to sell the underlying security is limited while the option is in effect unless the Fund effects a closing purchase transaction. The purchase of an option or warrant runs the risk of losing the entire investment, thereby causing significant losses to the account in a relatively short period of time.

7. CHANGING CONDITIONS COULD CAUSE THE FUND TO SUFFER LOSSES

There are innumerable external factors that could impact the Fund including changes in economic conditions (such as interest rates and inflation rates), industry conditions, governmental regulation, competition, technological developments, political and diplomatic events and trends, the outbreak of war or terrorist acts, changes in tax laws and other factors. The General Partner cannot control any of these conditions.

D. RISKS ASSOCIATED WITH THE STRUCTURE AND OPERATION OF THE FUND

1. NO INDEPENDENT COUNSEL

No independent legal counsel has been retained to represent the interests of the Investors. Neither this Memorandum nor the Partnership Agreement of the Fund has been reviewed by any attorney on behalf of the Investors. Each prospective Investor is therefore urged to consult its own legal counsel as to the terms and provisions of the Interests and with regard to all other related documents. Legal counsel to the General Partner does not represent the Fund or any Investor in the Fund.

2. NO MINIMUM LEVEL OF CAPITAL

The Fund may begin operations without attaining any particular level of capitalization beyond minimal organizational amounts. At low asset levels, the Fund may be unable to diversify its investments as fully as would otherwise be desirable or to take advantage of potential economies of scale, including the ability to obtain the most timely and valuable research and trading information from securities brokers. It is possible that even if the Fund operates for a period with substantial capital, losses and/or withdrawals could diminish the Fund’s assets to a level that does not permit the most efficient and effective implementation of the Fund’s investment program.

3. EFFECT OF SUBSTANTIAL WITHDRAWALS

Substantial withdrawals within a short period of time could require the Fund to liquidate securities positions more rapidly than would otherwise be desirable, possibly reducing the value of the Fund’s assets and/or disrupting the General Partner’s investment strategy. Reduction in the size of the Fund could make it more difficult to generate a positive return or to recoup losses due to, among other things, reductions in the Fund’s ability to take advantage of particular investment opportunities.

4. FUND DEFICITS

The expenses of the Fund may exceed its income, thereby requiring that the difference be paid out of the Fund's capital, reducing the Fund's investments and potential for profitability.

5. RESERVE FOR CONTINGENT LIABILITIES

Under certain circumstances, the General Partner may establish such holdbacks or reserves ("Reserves") as it deems necessary in its sole and absolute discretion for contingent liabilities and other matters relating to the Fund. In the General Partner's sole and absolute discretion, the withdrawal proceeds may be reduced by the amount of such Reserves. This could happen, for example, if the Fund were involved in litigation or subject to an audit by the United States Internal Revenue Service.

6. LIQUIDATION

If a Fund should become insolvent, the Investors in the Fund may be required to return with interest any property distributed that represented a return of capital, repay any distributions wrongfully made to them and forfeit any undistributed profits.

7. LIMITED LIQUIDITY OF FUND INTERESTS

An investment in a Fund involves substantial restrictions on liquidity and the Fund's Interests are not freely transferable. There is no market for the Interests in the Fund, and no market is expected to develop. Further, resale of the Interests is subject to compliance with applicable securities laws. Consequently, Investors may be unable to liquidate their Interests except by withdrawing from the Fund in accordance with the Fund's Partnership Agreement. Investors may be unable to liquidate their investment promptly in the event of an emergency or for any other reason. Although Investors may attempt to increase their liquidity by borrowing from a bank or other institution, the Interests may not readily be accepted as collateral for a loan. In addition, transfer of the Interests as collateral or otherwise to achieve liquidity may result in adverse tax consequences to the transferor.

8. CONSENT BY INVESTORS

If the General Partner requires the consent of the Investors in order to take an action, the Partnership Agreement provides that if written notice of such action is mailed to such Investors, those Investors not affirmatively objecting in writing within fifteen (15) days after such notice is mailed shall be deemed to have consented to the proposed action set forth in the General Partner's notice.

9. TIMING OF WITHDRAWALS

An Investor may not withdraw its initial and/or subsequent contributions of capital until at least twelve (12) full calendar months from the relevant date that such contributions were made. This twelve-month restriction applies separately to each investment in the Fund by an Investor; provided, that, in its sole discretion, the General Partner may agree to permit the withdrawal of an Investor's initial and/or subsequent contributions of capital prior to the termination of any such twelve-month period. Thereafter, full or partial withdrawals will be permitted on the last business day of each calendar quarter in minimum denominations of \$50,000 (or at such other times as permitted by the General Partner, in its sole discretion) by giving at least thirty (30) days' prior written notice to the General Partner or the Administrator. Partial withdrawals, of less than ninety percent (90%) of an Investor's Interests, will generally be paid in full within thirty (30) days after the withdrawal date. In the General Partner's discretion, complete or substantially complete withdrawals of ninety percent (90%) or more of an Investor's Interests, will generally be paid within thirty (30) days after the withdrawal date, with the remainder being paid as soon as practicable upon the completion of the Fund's annual audit. The payment of

withdrawal proceeds may be delayed if necessary to permit an orderly liquidation of portfolio securities held by the Fund. No interest or other return will be paid on any delayed payment.

If withdrawals requested with respect to a calendar quarter exceed 20% of the Fund's Net Asset Value as of the end of that quarter (the "20% Limit"), then the General Partner may, in its discretion, suspend such withdrawals that exceed the 20% Limit, and each Investor that requested a withdrawal for that quarter will receive a pro rata portion of its requested withdrawal amount. Unsatisfied withdrawals will be effected in subsequent calendar quarters; provided, that, such Investor's unsatisfied withdrawal requests will not be given priority over any other Investor's withdrawal requests in subsequent periods and that a new 20% Limit will be calculated and applied, for each subsequent calendar quarter. See "Section IX – Subscriptions, Withdrawals; Net Asset Value" below for certain other restrictions on withdrawal of Interests from the Fund.

10. PAYMENT OF WITHDRAWAL PROCEEDS IN SECURITIES OR FINANCIAL INSTRUMENTS

Although under normal circumstances and market conditions the Fund anticipates that withdrawal proceeds will generally be paid in cash, the General Partner has the discretion to deliver amounts withdrawn "in kind" in securities, or other financial instruments, rather than cash, or partially in securities, or other financial instruments, and partially in cash. The securities or other financial instruments so delivered or may be illiquid for an indefinite period of time, and an Investor would bear the risk of a decline in the value after the effective time of his, her or its withdrawal.

11. POTENTIAL MANDATORY REDEMPTION

The General Partner, in its sole discretion, may require any Investor to withdraw some or all of his, her or its Interests from the Fund at any time and for any reason or for no reason by providing any such Investor with ten (10) days' prior written notice. Such mandatory withdrawal could result in adverse tax and/or economic consequences to such an Investor.

12. IF THE GENERAL PARTNER DISSOLVES THE FUND, YOU COULD LOSE MONEY

The General Partner may at any time dissolve the Fund on at least *fifteen (15)* days' prior written notice to the Investors. Accordingly, there is a risk that if the Fund's assets become depleted and, as a result, the Management Fee is reduced, the General Partner may dissolve the Fund and distribute its remaining assets at a time that may be disadvantageous to the Investors. Additionally, if the Fund becomes insolvent, Investors may be required to return with interest any property distributed that represented a return of capital, repay any distributions wrongfully made to them and forfeit any undistributed profits.

13. NO DISTRIBUTIONS – TAX LIABILITY

The General Partner does not intend to make distributions to the Investors, but intends instead to reinvest substantially all Fund net proceeds from the sale of assets, including the cost bases and all income and gain. Cash that might otherwise be available for distribution will also be reduced by payment of the Fund's obligations, payment of the Fund's expenses and establishment of appropriate reserves. As a result, if the Fund is profitable, Investors in all likelihood will be credited with the Fund's net income, and will incur the resulting income tax liability (to the extent they are subject to income tax), even though Investors do not receive any Fund distributions. An Investor may obtain cash from the Fund to pay taxes from allocated taxable income only to the extent permitted in the Partnership Agreement.

14. SUSPENSION OF WITHDRAWALS AND DISTRIBUTIONS

The General Partner may suspend the right of any Investor to withdraw or to receive the withdrawal proceeds from the Fund if, in the General Partner's judgment, such a suspension would be in the

best interest of the Fund. See “Section IX – Subscriptions and Withdrawals; Net Asset Value” below for certain other restrictions on the withdrawal of Interests. Circumstances, that might warrant suspension could be, but are not limited to, for example when a withdrawal would result in a violation of securities or other laws by the Fund or the General Partner or when disruptions in securities markets or other conditions make pricing and/or liquidation of some or all the Fund’s assets difficult or would result in losses to the Fund if the Fund attempted such liquidations.

15. WRITTEN AGREEMENTS

The General Partner, in its sole discretion, without any act, consent or approval of or notice to any Investor, on its own behalf or on behalf of the Fund, may enter into, deliver, perform, modify, amend and terminate written agreements or instruments (“side letters”) to or with one or more Investors which have the effect of altering or supplementing terms described herein or of establishing rights not described herein with respect to such Investor, including, without limitation, modifications of withdrawal rights, fee arrangements and access to Fund information.

16. WITHDRAWAL OF THE GENERAL PARTNER

The success of the Fund will depend on the ability of the General Partner to develop and implement investment strategies to achieve the Fund’s investment objectives. The Fund’s investment performance could be materially affected if the General Partner were to cease to be involved in the active management of the Fund’s investment portfolio or if the General Partner were to withdraw as the general partner of the Fund.

17. BROAD INDEMNIFICATION OF THE GENERAL PARTNER

Under Delaware law, a general partner is accountable to the limited partners as a fiduciary and, consequently, required to exercise good faith and integrity in handling Fund matters. Under the Partnership Agreement, to the fullest extent permitted by applicable law (including ERISA) or regulation, the General Partner, any affiliate of the General Partner, any person controlling the General Partner and any person acting on behalf of such persons will be indemnified by the Fund from and against any cost, claim, liability, damage, loss or expense (including, without limitation, all legal and expert witness fees and expenses and all costs of investigation) incurred or suffered by any such person (i) by virtue of any such person’s acting, as or on behalf of the General Partner, for the Fund in connection with the Fund’s activities, or (ii) with respect to any person that is a member of the General Partner or a beneficial owner of such member, that is directly or indirectly related to the Fund’s organization or operation. In addition, the General Partner and such persons will not be liable to the Fund or any partner for any cost, claim, liability, damage, loss or expense incurred or suffered in connection with the Fund’s activities, including, without limitation, any tax liability asserted against any partner by any federal, state or local authority as a result of any position taken by the Fund or any partner. Nevertheless, if such cost, claim, liability, damage, loss or expense arises out of any action or inaction of any such person, these provisions will be available only if the indemnitee believed at the time of such action or inaction, in good faith, that such course of conduct was in the interests of the Fund and such course of conduct must not have constituted a breach by the indemnitee of any fiduciary duty that the indemnitee may have to the Fund. In addition, the indemnification is available only as and to the extent that it is not prohibited by applicable law governing rights of indemnification (including ERISA). Recoveries under these provisions may be had only out of the assets of the Fund and not from the Investors. The Partnership Agreement also provides that the Fund shall, on demand, advance funds for all costs, expenses, attorneys’ and expert witness fees as and when incurred by those indemnified persons in connection with any such cost, claim, liability, damage, loss or expense if they undertake to repay the advanced funds to the Fund if it is finally determined by a court of competent jurisdiction that the indemnitee is not entitled to indemnification under the Partnership Agreement.

18. ARBITRATION

Any dispute or controversy between the parties to the Partnership Agreement involving the interpretation, construction or application of any terms, covenants or conditions of the Partnership Agreement, or subscription documents, or any transactions under or claim arising out of or relating thereto, shall be submitted to and resolved by arbitration. Such arbitration shall be conducted in accordance with the rules of JAMS, applying Delaware law. Any arbitration panel appointed by JAMS will consist of at least three individuals, at least one of whom shall have experience in the securities business. Any arbitration proceeding held by JAMS will be held in the City and County of San Francisco, California. By signing the Subscription Agreement, the Investor expressly waives any right he, she or it may have to seek redress in any other forum. Each party to such arbitration will bear his, her or its own expenses of arbitration and the expenses of the arbitrators and of a transcript of any arbitration proceeding will be divided equally among the parties. The award of the arbitrators will be final and binding on the parties, and judgment upon the award rendered may be entered in any court, state or federal, having jurisdiction. The agreement to arbitrate will not entitle any party to arbitrate claims that would be barred by the applicable statute of limitations if such claims were brought in a court of competent jurisdiction. If at the time a demand for arbitration is made, the claims sought to be arbitrated would have been barred by the relevant statute of limitations or other time bar, any party may assert the limitations as a bar to the arbitration by applying to any court of competent jurisdiction. The failure to assert such bar by application to a court, however, shall not preclude its assertion before the arbitrators.

The Subscription Documents also contain a mandatory arbitration provision that provides that any controversy between an Investor and the Fund or the General Partner involving a Fund, or the Subscription Documents shall be submitted to arbitration in the City and County of San Francisco, California. Such arbitration shall be conducted in accordance with the rules of JAMS, applying Delaware law and following the procedure described above with respect to the Partnership Agreement.

E. REGULATORY RISKS

Securities and investment businesses generally are comprehensively and intensively regulated under various national and local laws and regulations. Any investigation, litigation or other proceeding undertaken by state or federal regulatory agencies or private parties could necessitate the expenditure of material amounts of the Fund's resources for legal and other costs and could have other materially adverse consequences for the Fund. Furthermore, the human and capital resources of the Fund and the General Partner could be adversely affected by the need to defend actions under these laws, even if the Fund is ultimately successful in its defense.

1. PRIVATE OFFERING AND OTHER EXEMPTIONS

With respect to Investors who are US Persons, this offering has not been registered under the Securities Act, in reliance on the exemptive provisions of Section 4(2) of the Securities Act and Regulation D, among others. Section 18(b)(4)(D) of the Securities Act, added by the National Securities Markets Improvement Act of 1996, preempts state registration of transactions in securities exempt pursuant to "rules and regulations issued by the SEC under Section 4(2) of the Securities Act." Preemption therefore applies to transactions exempt under Regulation D, but not to transactions exempt under Section 4(2) alone. Because of the lack of uniformity among the state's securities laws and their generally complicated nature, the Fund have chosen not to incur the expense and burden of reviewing exemptions under each state's laws, but rather intend to rely on the uniform exemption provided by Regulation D.

No assurance can be given that the offering currently qualifies or will continue to qualify under the exemptive provisions of Regulation D because of, among other things, the adequacy of disclosure and the manner of distribution, the timeliness of filings, the existence of similar offerings in the past or in the future, or the retroactive change of any securities law or regulation. If the Regulation D exemption is lost, the Fund may not be able to avail itself of other state exemptions and successful claims or suits for rescission may be brought

and successfully concluded for failure to register these offerings or for acts or omissions constituting offenses under the Exchange Act or applicable state securities laws.

2. EXEMPTION FROM INVESTMENT COMPANY REGULATION

The General Partner believes that, by virtue of Section 3(c)(1) of the Investment Company Act, the Fund should not be deemed to be an “investment company” and, accordingly, should not be required to register as such under the Investment Company Act. This interpretation depends in part, however, on the application of Section 3(c)(1) of the Investment Company Act. Section 3(c)(1) of the Investment Company Act excludes from regulation certain private investment companies (i) whose outstanding securities are owned by not more than 100 persons, and (ii) are not making and do not presently propose to make a public offering of their securities.

3. BROKER-DEALER REGISTRATION

The Fund is not a broker or dealer, and does not intend to be registered as a broker or dealer under the Exchange Act or any state securities law. The General Partner believes that the Fund is not required to be registered as a broker or dealer, but if a regulatory authority were to assert that such registration were required, the Fund would bear the resulting increased expenses and its activities would be restricted, which could materially and adversely affect the Fund’s business.

4. ENHANCED REGULATORY SCRUTINY

The Fund and the General Partner expect enhanced scrutiny by government regulators, investigators, auditors and law enforcement officials regarding the identities and sources of funds of investors in private investment funds such as the Fund. In that connection, in the future the Fund may become subject to additional obligations, such as reporting requirements regarding its partners, including, without limitation, such requirements and restrictions as may apply under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the “Patriot Act”). Upon the General Partner’s request, each Investor will be required to provide to the General Partner such information as may be required for the General Partner to enable the General Partner and/or the Fund to comply with all applicable legal or regulatory requirements, including, without limitation, the requirements of the Patriot Act (and/or all rules and regulations related thereto) or other anti-money laundering statutes. Each Investor will be required to acknowledge and agree that the General Partner may disclose such information to governmental and/or regulatory or self-regulatory authorities to the extent required by applicable law or regulation and may file such reports with such authorities as may be required by applicable law or regulation. If required by applicable law, regulation or interpretation thereof, the General Partner may suspend all activity with respect to an Investor’s account with the Fund, including suspending the Investor’s right to withdraw from the Fund pending the General Partner’s receipt of instructions regarding the Investor’s account from the appropriate governmental or regulatory authority.

5. DUTIES OF THE GENERAL PARTNER AS ERISA FIDUCIARY

In the event that the assets of the Fund are deemed to be “plan assets” subject to ERISA, the General Partner will be deemed an ERISA fiduciary with respect to the assets of the ERISA-Covered Investors in the Fund. As an ERISA fiduciary, the General Partner would be required to conform its decisions and actions in connection with such “plan assets” to the fiduciary duties and limitations imposed on ERISA fiduciaries, including without limitation the prohibited transaction restrictions imposed by ERISA, notwithstanding anything contained herein to the contrary. Accordingly, restrictions imposed on the Fund under ERISA could limit certain investment opportunities in select circumstances and otherwise affect the operations and expenses of the Fund.

6. BUSINESS AND REGULATORY RISKS OF HEDGE FUNDS

Legal, tax and regulatory changes could occur during the term of the Fund that may adversely affect the Fund. The regulatory environment for hedge funds is evolving, and changes in the regulation of hedge funds may adversely affect the value of investments held by the Fund and the ability of the Fund to obtain the leverage it might otherwise obtain or to pursue its trading strategies. In addition, the securities markets are subject to comprehensive statutes, regulations and margin requirements. The SEC, other regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial action. The effect of any future regulatory change on the Fund could be substantial and adverse and otherwise affect the operations and expenses of the Fund.

F. TAX RISKS

The tax aspects of an investment in the Fund are complicated, and each prospective Investor should have them reviewed by professional advisers familiar with such Investor's personal tax situation and with the tax laws and regulations applicable to the Investor and private investment vehicles. The Fund is not intended and should not be expected to provide any tax shelter. Certain tax considerations are more fully discussed in "Income Tax Considerations" at Section XI.

THE ABOVE RISK FACTORS DO NOT COMPLETELY EXPLAIN THE RISKS OF INVESTING IN THE FUND. YOU MUST READ THE ENTIRE OFFERING MEMORANDUM, INCLUDING THE APPENDICES AND EXHIBITS, AND CONSULT WITH YOUR OWN ADVISERS BEFORE DECIDING TO INVEST IN THE FUND.

SECTION VII. CONFLICTS OF INTEREST

The General Partner is accountable to the Fund as a fiduciary and, consequently, must exercise good faith and integrity in handling the businesses of the Fund. Nevertheless, in the conduct of that business, conflicts may arise among the interests of the General Partner and those of the Investors. Prospective Investors should be aware of these conflicts of interest before investing. To mitigate any such conflicts, the General Partner will take appropriate measures to assure that it will not unfairly profit from any transaction between it and the Fund. The General Partner will seek to apportion or allocate business opportunities among persons or entities to or with which it or its affiliates have fiduciary duties and other relationships on a basis that is fair and equitable to the maximum possible extent to each of such persons or entities, including the Fund.

A. CONFLICTS ASSOCIATED WITH THE GENERAL PARTNER’S INVESTMENT ADVISORY BUSINESS

The General Partner and its affiliates have sponsored, managed or participated in, and may elect in the future to sponsor, manage or participate in, other securities investment activities and programs unrelated to the Fund’s business (some of which may compete with the Fund’s investment activities). Specifically, the General Partner currently acts as an investment manager to the Fund and as investment manager to its other investment advisory accounts. See “Management of the Fund and Other Services – General Partner” at Section IV. The General Partner’s judgment may be affected by the conflict of interests inherent in such relationships. Examples of these conflicts include:

1. COMPETING TIME PRESSURES

The other activities of the General Partner and its affiliates may create conflicts of interest with the Fund over the time devoted to managing the Fund.

2. CONFLICTING FIDUCIARY DUTIES AND ALLOCATING INVESTMENT OPPORTUNITIES

Because the General Partner and its affiliates may have fiduciary duties to the Fund and other clients, the interests of the Fund and the other clients in the selection, allocation, negotiation and administration of investments may conflict, and the General Partner may be subject to conflicting demands on its time and attention. An Investor, which may include the General Partner and its affiliates, or an Investor’s affiliates may make an investment, whether or not in competition with the Fund or in a manner that would limit or eliminate the Fund’s opportunity to make the investment, without any accountability to the Fund or to any other Investor. The General Partner will attempt to resolve all such conflicts in a manner that is fair to all such interests.

3. ACCESS TO NON-PUBLIC INFORMATION

The General Partner, in the course of its investment advisory business (including discussions it may have with Investors who may be insiders with respect to certain companies), may have access to non-public information on publicly traded companies. For this reason and other reasons, there may be situations where the Fund is prohibited from making a particular investment or from trading an existing position.

B. OTHER POTENTIAL CONFLICTS

1. SOFT-DOLLARS

The General Partner and its affiliates may be offered non-monetary benefits or “soft dollars” by brokers to induce the General Partner and its affiliates to engage those brokers to execute securities transactions on behalf of the Fund. These soft dollars may take the form of research and other services regarding securities investments, and may be available for use by the General Partner and its affiliates in connection with

transactions in which the Fund does not participate. The availability of these benefits may influence the General Partner to select one broker rather than another to perform services for the Fund and may represent a conflict of interest between the General Partner and the Fund and its Investors. Nevertheless, the General Partner intends to use its reasonable efforts to assure either that the fees and costs for services or products provided to the Fund by such brokers are no greater than they would be if the services were performed by equally capable brokers not offering such services, or that the Fund also will benefit from the services or products.

2. VALUATION AND CALCULATIONS OF FEES

Given the nature of some of the Fund's investments, and the use of third parties to provide valuations, the value assigned to an investment will also affect the Management Fee owed to the General Partner and the value of the Interests, if any, owned by the General Partner. However, those valuations may not reflect the value at which the Fund could sell those investments at the time the Management Fee is calculated. There can be no assurance that the value assigned to an investment at a certain time in accordance with the Partnership Agreement will equal the value that the Fund is ultimately able to realize. Even if there is a difference, the Partnership Agreement does not require the General Partner to return past Management Fees.

3. REBATE OF MANAGEMENT FEE AND PERFORMANCE ALLOCATION

The General Partner has the ability to waive or rebate all or part of the Management Fee and/or Performance Allocation as to any transaction or any Investor. If the General Partner waives or rebates all or a part of the Management Fee and/or Performance Allocation, it may effectuate such waiver or rebate by directly waiving or rebating amounts to certain Investors, by appropriate accounting adjustments, or by other methods as it deems reasonable and fair.

4. INDEMNIFICATION AND EXCULPATION

The Partnership Agreement provides broad indemnification rights to the General Partner, its affiliates and certain other persons. See "Certain Risk Factors – Risks Associated With the Structure and Operation of the Fund – Broad Indemnification of the General Partner." If and to the extent any discretion is to be exercised in determining whether to make payments under any of these indemnification or cost advancement provisions, that discretion rests with the General Partner. The General Partner would have a conflict of interest in exercising that discretion, in that it, along with its affiliates, are beneficiaries of the provisions.

Some securities laws can, in some circumstances, impose liability even when a person acts in good faith, and the exculpation and indemnification provisions of the Partnership Agreement could possibly be held to be unenforceable in some part under some circumstances.

5. WRITTEN AGREEMENTS

The General Partner, in its sole discretion, without any act, consent or approval of or notice to any Investor, on its own behalf or on behalf of the Fund, may enter into, deliver, perform, modify, amend and terminate written agreements or instruments ("side letters") to or with one or more Investors which have the effect of altering or supplementing terms described herein or of establishing rights not described herein with respect to such Investor, including, without limitation, modifications of withdrawal rights, fee arrangements and access to Fund information.

SECTION VIII. BROKERAGE PRACTICES

A. SELECTION OF BROKERS

All orders for the purchase and sale of securities for the Fund will be placed in such markets and through such brokers as in the General Partner's best judgment offer the most favorable price and market for the execution of each transaction under the circumstances. In selecting a broker or dealer for any transaction or series of transactions, the General Partner may consider a number of factors, including, for example, net price, reputation, financial strength and stability, efficiency of execution, block trading and block positioning capabilities, willingness to execute related or unrelated difficult transactions in the future, research services provided to the General Partner and other matters ordinarily involved in the receipt of brokerage services generally. In no event shall the General Partner be under any duty to obtain the lowest commission or best net price for the Fund on any particular transaction, nor is the General Partner under any duty to execute any order in a fashion either preferential to the Fund relative to other like accounts managed by the General Partner or otherwise materially adverse to such other accounts.

The General Partner may effect securities transactions which cause the Fund to pay an amount of commission (as that term may be interpreted from time to time by relevant regulatory authorities) in excess of the amount of commission another broker would have charged; provided, however, that the General Partner determines in good faith that such amount of commission is reasonable in relation to the value of brokerage and research services provided by such broker, viewed in terms of either the specific transaction or the General Partner's overall responsibilities to the accounts for which the General Partner exercises investment discretion.

B. USE OF "SOFT DOLLARS"

In addition to execution quality, the General Partner may consider the value of various research services or products, beyond execution, that a broker-dealer provides to the Fund or the General Partner. Selecting a broker-dealer in recognition of such other services or products is known as paying for those services or products with "soft dollars." Because many of those services could benefit the General Partner, the General Partner may have a conflict of interest in allocating the Fund's brokerage business.

Under Section 28(e) of the Exchange Act, the General Partner's use of the Fund's commission dollars to acquire "research" products and services is not a breach of the General Partner's fiduciary duty to the Fund even if the brokerage commissions paid are higher than the lowest available so long as (among certain other requirements) the General Partner determines that the commissions are reasonable compensation for both the brokerage services and the "research" acquired. For these purposes, "research" means services or products used to provide lawful and appropriate assistance to the General Partner in making investment decisions for its clients. The types of "research" the General Partner may acquire include: reports on or other information about particular companies or industries; economic surveys and analyses; recommendations as to specific securities; financial publications; portfolio evaluation services; financial database software and services; computerized news, pricing and order entry services; quotation equipment and other computer hardware for use in running software used in investment decision making; and other products or services that may enhance the General Partner's investment decision making. The Section 28(e) "safe harbor" applies to the use of Fund "soft dollars" even when the "research" acquired is used in making investment decisions for clients other than the Fund. The safe harbor is not available where transactions are effected on a principal basis (except for certain "riskless principal" transactions in NASDAQ equity securities and any other similar transactions that may in the future qualify pursuant to regulatory actions or interpretations), with a markup or markdown paid to the broker dealer. The safe harbor is also not available for the services or products that do not constitute "research." The Fund will only participate in soft dollar arrangements that meet the requirements of the research safe harbor of Section 28(e) of the Exchange Act.

A broker or dealer through which the General Partner wishes to use “soft dollars” may establish “credits” relating to brokerage commissions paid in the past, which may be used to pay, or reimburse the General Partner for, specified expenses. In other cases, a broker or dealer may provide or pay for the service or product and suggest a level of future business that would fully compensate it. The Fund’s actual transactional business with such a broker-dealer may be less than the suggested level but can – and often will – exceed that level. This may be in part because the Fund’s investment activities generate aggregate commissions in excess of the aggregate suggestions from all broker-dealers providing services and products. And it may be in part because those broker-dealers may also provide superior execution and may therefore be most appropriate for particular transactions. Broker-dealers are not excluded from Fund business simply because they have not provided “research” or other services or products. Because the Fund primarily expects to transact in debt instruments, which do not trade with commissions, it is unlikely that the General Partner will avail itself of the soft dollar opportunity.

C. TRADE ALLOCATION

The General Partner may aggregate sale and purchase orders of securities held by the Fund with similar orders being made simultaneously for other accounts managed by the General Partner if, in the General Partner’s judgment, such aggregation is reasonably likely to result in an overall economic benefit to the Fund based on an evaluation that the Fund is benefited by relatively better purchase or sale prices, lower commission expenses or beneficial timing of transactions, or a combination of these and other factors. The Investor acknowledges that the General Partner’s determination of such economic benefit to the Fund is based on an evaluation that the Fund is benefited by relatively better purchase or sales prices, lower commission expenses and beneficial timing of transactions, or a combination of these and other like or unlike factors. There may be circumstances where the General Partner is unable to obtain sufficient quantities of a particular security due to market conditions, but may be able to obtain additional quantities of that security later in the trading period. Under such circumstances, the General Partner would allocate the quantities of the debt securities obtained in accordance with its trade allocation procedures. The commissions charged to the Fund may also differ from those charged to other clients of the General Partner because of those clients’ specific brokerage account arrangements. See “Conflicts of Interest” at Section VII.

D. PRIME BROKER

Morgan Stanley & Co. (the “Prime Broker”) serves as the prime broker for the Fund and clears (generally on the basis of payment against delivery) the Fund’s securities transactions that are effected through the Prime Broker and other brokerage firms. The Prime Broker maintains custody of the Fund’s securities and will receive no separate fee therefor, although in certain instances other brokers who execute transactions for the Fund will maintain custody of the Fund’s assets. The Fund may also utilize other prime brokers and/or clearing brokers from time to time in addition to, or instead of, the Prime Broker.

SECTION IX.
SUBSCRIPTIONS AND WITHDRAWALS; NET ASSET VALUE

A. SUBSCRIPTIONS

Prospective Investors who desire to invest in the Fund will be required to make a minimum investment of US \$250,000, subject to the General Partner's ability, in its sole discretion, to reduce, waive or change the minimum investment amount on an individual basis.

Initial and additional capital contributions may generally be made, upon not less than 5 Business Days' prior written notice, as of the first Business Day (as defined herein) of each calendar month and on such other days as determined by the General Partner in its sole discretion (each a "Subscription Date"). The term "Business Day" refers to (i) any day on which both the New York Stock Exchange and the U.S. Federal Reserve are open, and (ii) any such other day or days as the General Partner may designate in its discretion. All capital contributions, in whole or in part, are subject to rejection or acceptance by the Fund for any reason or for no reason, in the sole discretion of the General Partner.

B. LIQUIDITY; WITHDRAWALS

A Limited Partner that has held its Interests for at least one year will generally be permitted to make withdrawals from the Fund as of the end of each calendar quarter in minimum denominations of \$50,000 (or at such other times and in such amounts as permitted by the General Partner, in its discretion) by giving at least 30 days' prior written notice to the General Partner or the Administrator. This twelve-month restriction applies separately to each investment in the Fund by an Investor; provided, that, in its sole discretion, the General Partner may agree to permit the withdrawal of an Investor's initial and/or subsequent contributions of capital prior to the termination of any such twelve-month period. Once a withdrawal notice is received by the General Partner or the Administrator, the notice is irrevocable, unless the General Partner, in its discretion, permits otherwise.

Actual fees and expenses, if any, attributable to an Investor's withdrawal may be debited against the withdrawing Investor's Capital Account. Investors may not reduce their Capital Accounts below US \$250,000 as a result of any partial withdrawal (subject to a reduction or a waiver by the General Partner in its sole discretion). Partial withdrawals, of less than ninety percent (90%) of an Investor's Interests, will generally be paid in full within thirty (30) days after the withdrawal date. In the case of withdraws 90% or more of an Investor's Interests, a portion (generally not to exceed 10%) of the withdrawal payment will be retained in the General Partner's discretion pending final reconciliation of valuations for the withdrawal date (generally not to exceed 90 days after withdrawal; *provided* that the General Partner may elect to retain such payments pending completion of the Fund's audit for the fiscal year in which the withdrawal occurs). The payment of withdrawal proceeds also may be delayed if necessary to permit an orderly liquidation of portfolio securities held by the Fund. No interest or other return will be paid on any delayed payment.

The General Partner may establish such holdbacks or reserves ("Reserves") as it deems necessary in its sole and absolute discretion for contingent liabilities and other matters relating to the Fund. In the General Partner's sole and absolute discretion, the amount of any withdrawal proceeds may be reduced by the amount of such Reserves.

If withdrawals requested with respect to a calendar quarter exceed 20% of the Fund's Net Asset Value as of the end of that quarter (the "*20% Limit*"), then the General Partner may, in its discretion, suspend such withdrawals that exceed the 20% Limit, and each Investor that requested a withdrawal for that quarter will receive a pro rata portion of its requested withdrawal amount. Unsatisfied withdrawals will be effected in subsequent calendar quarters; *provided, that*, such Investor's unsatisfied withdrawal requests will not be given priority over any other Investor's withdrawal requests in subsequent periods and that a new 20% Limit will be calculated and applied, for each subsequent calendar quarter.

Withdrawal proceeds may be paid in cash, in kind with securities, or in cash and in kind, at the sole discretion of the General Partner. The General Partner may require any Investor to withdraw from the Fund, or to reduce his, her or its Interests in the Fund, for any or no reason by providing the Investor with ten (10) days' prior written notice.

C. NET ASSET VALUE

The Net Asset Value of the Fund will be determined on a monthly basis by the General Partner or the Administrator (under the direction of the General Partner) in accordance with the following and, to the extent the Fund is subject to ERISA, in a manner consistent with ERISA:

- The General Partner will use a third-party pricing service selected in its discretion to value portfolio assets.
- To the extent the pricing service is not able to provide a price considered by the General Partner to be reliable, current or accurate with respect to a particular portfolio holding, the General Partner will normally instead rely on price quotations by one or more broker-dealers.

Any assets valued or denominated in a foreign currency shall be converted into U.S. dollars by applying the rate of exchange determined by or under the direction of the General Partner as existing on the valuation date. All expenses and liabilities of the Fund shall be calculated on an accrual basis. The value of any security shall reflect any unrealized gains and losses with respect to such security. Intangible assets will be valued at book value. The fair value of any security or other asset, which the General Partner determines in its sole discretion cannot be determined in accordance with the above, shall be determined by a third party under the direction of the General Partner in a manner which the General Partner in its sole discretion deems appropriate, or as otherwise required by ERISA, if applicable. All Investors acknowledge that the process of valuing assets for which no published market exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for such assets and may differ from the prices at which such assets may be sold.

SECTION X. ERISA CONSIDERATIONS FOR EMPLOYEE PLANS

This summary does not include all of the fiduciary investment considerations relevant to investors subject to ERISA and/or Section 4975 of the Internal Revenue Code of 1986, as amended (the “Code”), and should not be construed as legal advice or a legal opinion. Prospective investors should consult with their own counsel on these matters.

A. GENERAL

Most retirement and welfare benefit plans maintained by employers for employees (“*Employee Benefit Plans*”) are subject to the Employee Retirement Income Security Act of 1974 (“*ERISA*”). ERISA-covered plans include, among others, individual corporate employer-sponsored pension, profit-sharing, and retirement savings (e.g., “*401(k)*”) plans, “simplified employee pension” (or “*SEP*”) plans (which are individual retirement accounts to which employers contribute for the benefit of employees), jointly trustee labor-management Taft-Hartley plans, and plans established or maintained by tax-exempt entities. ***The Fund’s use of leverage likely would generate unrelated business taxable income or “UBTI” for Investors that are Employee Benefit Plans. Because most Employee Benefit Plans try to avoid receipt of UBTI, those Investors that are Employee Benefit Plans should consult their tax and legal advisors before investing.***

ERISA does not cover plans established or maintained by government entities, certain church plans, foreign plans covering nonresident aliens, and certain other plans excluded by statute.

Plans not sponsored and maintained by employers for “employees” also are not subject to ERISA. These include individual retirement accounts (“*IRAs*”) not sponsored or contributed to by an employer, so-called “Keogh” or “H.R.-10” plans covering only self-employed individuals (i.e., sole proprietors, partners), and corporate-sponsored plans covering only the corporation’s sole shareholder and his or her spouse. These plans, however, (as well as plans subject to ERISA) are subject to the prohibited transaction excise tax provisions of Section 4975 of the Code.

B. INVESTMENT CONSIDERATIONS

The appropriate fiduciary of an Employee Benefit Plan proposing to invest in the Fund should consider whether that investment would be consistent with the terms of the plan’s governing instrument and, if applicable, ERISA’s fiduciary responsibility requirements. A fiduciary of a plan subject to ERISA should give appropriate consideration to, among other things, the role that an investment in the Fund would play in the plan’s portfolio, taking into consideration whether the investment is designed reasonably to further the plan’s purposes, the risk and return factors associated with the investment, the composition of the plan’s total investment portfolio with regard to diversification, the liquidity and current return of the plan’s portfolio relative to its anticipated cash flow needs, the projected return of the plan’s portfolio relative to its objectives, and limitations on the right of Investors to withdraw or transfer their Interests.

In addition, ERISA prohibits a fiduciary from causing the plan to engage in a transaction if the fiduciary knows or should know that such transaction constitutes, among other things, a direct or indirect sale or exchange of property between the plan and a party in interest or a transfer of plan assets to, or use of plan assets by or for the benefit of, a party in interest. Section 4975 of the Code imposes an excise tax on disqualified persons of plans subject to that Section (as described above) who participate in prohibited transactions substantially similar to those prohibited by ERISA. The General Partner believes that the Fund itself should not be considered a party in interest (or disqualified person) with respect to investing plans. The General Partner (and certain entities affiliated with the General Partner), however, may be deemed a party in interest (or disqualified person) of a plan with respect to which it provides investment management, investment advisory, or other services. Since the application of ERISA and Section 4975 of the Code depends upon the particular facts and circumstances of each plan, the appropriate fiduciary should consult its own advisors to determine whether

investment in the Fund would be prohibited by ERISA or Section 4975 of the Code. An authorized fiduciary of each plan subject to the prohibited transaction restrictions of ERISA or Section 4975 of the Code will be required to represent, and by making an investment in the Fund thereby does represent, that such investment will not violate such prohibited transaction restrictions.

The assets of the Fund will be invested in accordance with the investment policies and objectives described in this Memorandum. The appropriate fiduciary of each plan is responsible for ensuring that an investment in the Fund by such plan meets all applicable requirements of ERISA and Section 4975 of the Code in the specific context of the particular plan. An authorized fiduciary of each employee benefit plan proposing to invest in the Fund will be required to represent, and by making an investment in the Fund thereby does represent, that it has been informed of and understands the Fund's investment objectives, policies, and strategies and that the decision to invest plan assets in the Fund is consistent with the provisions of applicable law, including ERISA and Section 4975 of the Code. Plans should consult their own advisors regarding these matters before investing in the Fund.

C. "PLAN ASSETS"

The US Department of Labor (the "*Department*") has published a regulation, 29 C.F.R. § 2510.3-101 (the "*Regulation*") describing when the underlying assets of an entity, such as the Fund, in which certain "benefit plan investors" ("*Benefit Plan Investors*") invest constitute "plan assets" for purposes of applying the fiduciary requirements of Title I of ERISA (including the prohibited transaction rules of Section 406 of ERISA) and the related prohibited transaction excise tax provisions of Section 4975 of the Code. The term "benefit plan investor" is defined in Section 3(42) of ERISA to include any (i) "employee benefit plan" subject to Title I of ERISA, (ii) "plan" (as defined in Section 4975(e)(1) of the Code) subject to Section 4975 of the Code, including, without limitation, individual retirement accounts and Keogh plans, or (iii) entity whose underlying assets include plan assets by reason of such an employee benefit plan's or plan's investment in such entity, including, without limitation, as applicable, an insurance company general account.

The Regulation, as modified by Section 3(42) of ERISA, provides that, as a general rule, when a plan invests assets in another entity, the plan's assets include its investment, but do not, solely by reason of such investment, include any of the underlying assets of the entity. However, when a plan acquires an "equity interest" in an entity that is neither (i) a "publicly offered security," nor (ii) a security issued by an investment company registered under the Investment Company Act of 1940, then the plan's assets include both the equity interest and an undivided interest in each of the underlying assets of the entity, unless it is established that the entity is an "operating company" or less than 25% of each class of equity interests in such entity are held by Benefit Plan Investors (the "*25% Limit*").

Interests in the Fund will not be publicly offered securities, the Fund will not register as an investment company under the Investment Company Act, and the Fund will not qualify as an "operating company" within the meaning of the Regulation. The General Partner, however, intends to monitor investments in the Fund to determine whether aggregate investments in the Fund by Benefit Plan Investors equals or exceeds twenty-five percent (25%) of the aggregate value of the Fund's Interests. (The Regulation requires the General Partner, in making this computation, to disregard the value of the Interests held by the General Partner and its affiliates or any other person having discretionary authority or control over the Fund's assets, other than the Interests held by any of such persons through a Benefit Plan Investor.) Equity participation by Benefit Plan Investors could, at some point, equal or exceed the 25% Limit, and, as a result, the underlying assets of the Fund would be deemed "plan assets" for purposes of ERISA or Section 4975 of the Code. The Fund and the General Partner would thereafter comply with ERISA and Section 4975 of the Code.

If the assets of the Fund were regarded as "plan assets," the General Partner will be a "fiduciary" (as defined in ERISA) with respect to any Investor that is an employee benefit plan subject to ERISA and would be subject to the obligations and liabilities imposed on fiduciaries by ERISA. Moreover, the Fund would be subject to various other requirements of ERISA and Section 4975 of the Code. In particular, the

Fund would be subject to prohibitions on transactions with parties in interest and disqualified persons, and the General Partner, as a plan fiduciary, would be subject to certain restrictions on self dealing and conflicts of interest. In such case, the Fund or the General Partner may be precluded from engaging in certain transactions with a “party in interest” with respect to one or more investing plans that are subject to ERISA, unless an exemption is applicable. The General Partner may seek to rely on one or more statutory or administrative exemptions from the prohibited transaction restrictions, including, without limitation, the Department’s Prohibited Transaction Class Exemption No. 84-14 (the “*QPAM Exemption*”). The QPAM Exemption provides broad exemptive relief from ERISA’s prohibited transaction restrictions for many of the transactions in which the Fund is expected to engage in the ordinary course.

D. CONSIDERATIONS FOR NON-PLAN INVESTORS

This summary does not include a discussion of any laws, regulations, or statutes that may apply to prospective Investors that are not Employee Benefit Plans, such as state statutes that impose fiduciary responsibility requirements in connection with the investment of assets of governmental plans and other plans not subject to ERISA. Such Investors should consult their own professional advisors about these matters.

THE APPLICATION OF ERISA, THE CODE AND OTHER RELEVANT LAWS MAY BE COMPLEX AND DEPENDENT UPON THE PARTICULAR FACTS AND CIRCUMSTANCES OF EACH PLAN, AND IT IS THE RESPONSIBILITY OF THE APPROPRIATE FIDUCIARY OF THE PLAN TO ENSURE THAT ANY INVESTMENT IN THE INTERESTS BY SUCH PLAN IS CONSISTENT WITH ALL APPLICABLE REQUIREMENTS. FIDUCIARIES OF EMPLOYEE BENEFIT PLANS SHOULD CONSULT THEIR LEGAL AND OTHER ADVISORS CONCERNING THESE CONSIDERATIONS, AND (PARTICULARLY IN THE CASE OF NON-ERISA PLANS) CONCERNING ANY ADDITIONAL CODE AND STATE LAW CONSIDERATIONS, BEFORE MAKING AN INVESTMENT IN THE INTERESTS.

SECTION XI.
INCOME TAX CONSIDERATIONS

The tax advice contained in this Memorandum is not given in the form of a covered opinion, within the meaning of Circular 230 issued by the United States Secretary of the Treasury. Thus, we are required to inform you that you cannot rely upon any advice contained in this Memorandum for the purpose of avoiding United States federal tax penalties. The tax advice contained in this Memorandum was written to support the promotion or marketing of the transactions or matters described in this Memorandum. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

A. INTRODUCTION

The following is a summary of certain material U.S. federal income tax considerations relating to an investment in the Fund that may be applicable to Limited Partners (as defined below). This summary was prepared by Paul, Hastings, Janofsky & Walker LLP, U.S. tax counsel to the General Partner with respect to the Fund. The following discussion is based on the Internal Revenue Code of 1986, as amended (the “Code”), the Treasury Regulations promulgated thereunder (the “Regulations”), current administrative positions of the Internal Revenue Service (“IRS”), and existing judicial decisions, any of which could be changed at any time. Any such changes could affect the accuracy of the summary herein, possibly on a retroactive basis, and could adversely affect the tax consequences of an investment in the Fund. The Fund cannot assure that the IRS will not challenge one or more of the tax consequences described herein, and the Fund has not obtained, nor does the Fund intend to obtain a ruling from the IRS or an opinion of counsel with respect to the United States federal income tax consequences resulting from or in connection with an investment in the Fund.

This discussion does not address all aspects of federal income taxation that may be relevant to a particular Investor in light of their individual circumstances or to certain types of Investors (such as insurance companies, financial institutions, securities dealers, or investors who hold their Interests as part of a hedge, straddle or certain other financial positions) who may be subject to special treatment under the U.S. federal income tax laws. This discussion also does not address the effect of any state, local or non-U.S. tax laws, and does not consider any aspects of U.S. federal tax law other than income taxation.

For purposes of this discussion, a “Limited Partner” is (i) an individual who is a citizen of the United States or is treated as a resident of the United States for U.S. federal income tax purposes, (ii) a corporation (or other entity taxable as a corporation) that is created or organized in or under the laws of the United States or any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust, and one or more United States persons have the authority to control all substantial decisions of the trust, or (b) has a valid election in effect under the applicable Regulations to be treated as a Limited Partner.

The U.S. federal income tax treatment of a partner in a partnership that holds Interests will depend on the status of the partner and the activities of the partnership. Prospective Investors that are partnerships are urged to seek independent tax advice with respect to the U.S. federal income tax consequences of an investment in the Fund.

BECAUSE THE INCOME TAX LAWS APPLICABLE TO LIMITED PARTNERS IN THE FUND AND SECURITIES TRANSACTIONS ARE EXTREMELY COMPLEX, THE FOLLOWING SUMMARY DOES NOT PURPORT TO BE AN EXHAUSTIVE OR COMPLETE DESCRIPTION OF ANY SUCH INCOME TAX CONSEQUENCES. PERSONS CONSIDERING AN INVESTMENT IN THE FUND SHOULD CONSULT THEIR OWN TAX ADVISORS TO

UNDERSTAND FULLY THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF SUCH AN INVESTMENT IN LIGHT OF THEIR OWN PARTICULAR SITUATION.

B. CHARACTERIZATION OF THE FUND

Under the tax classification Regulations, a business entity formed as a limited partnership under state law will be classified as a partnership for federal income tax purposes (a “*Tax Partnership*”) unless it affirmatively elects to be taxed as a corporation. The Fund will not make such an election.

However, Tax Partnerships that are considered “publicly traded” will be treated as corporations for federal income tax purposes. Being so characterized would substantially and adversely affect Limited Partners’ after-tax income. The General Partners intends to obtain and rely on representations and undertakings from each Limited Partner and conduct the activities of the Fund to ensure that the Fund is not treated as a publicly traded partnership. The General Partner intends to treat the Fund as a partnership for U.S. federal income tax purposes.

The remainder of this discussion assumes that the Fund will be treated as a Tax Partnership, and not an association taxable as a corporation, for U.S. federal income tax purposes.

C. TAXATION OF THE FUND AND ITS INVESTORS

1. GENERAL

The Fund will not be subject to U.S. federal income tax. Instead, Limited Partners will be required to report on their own income tax returns their allocable shares of the Fund’s net long-term capital gain or loss, net short-term capital gain or loss, net ordinary income or deduction, and various other categories of income, gain, loss, deduction and credit (collectively, “*tax items*”). A Limited Partner must report the tax items without regard to whether any distribution has been or will be received from the Fund. Each tax item generally will have the same character and source as though the Limited Partner has realized the tax item directly. A Limited Partner’s share of any tax item will be governed by the Partnership Agreement unless (i) the Partnership Agreement is silent as to the Limited Partner’s share of that item, or (ii) the allocation provided by the Partnership Agreement is not considered to have “substantial economic effect” for tax purposes or is otherwise not in accordance with the Limited Partners’ Interests in the Fund (as described below). The Fund will file an annual information return reporting the results of operations based on its taxable year.

2. PARTNERSHIP ALLOCATIONS

Because the Fund regularly marks its portfolio to market, the Regulations require that the allocation of tax items attributable to its securities holdings must take into account the difference between the adjusted tax basis of the asset giving rise to the item and its book (*i.e.*, fair market) value. The Partnership Agreement provides, in effect, that unless the General Partner chooses, in its sole discretion, to use a different method of allocating tax items it considers consistent with the economic arrangements among the Limited Partners, the Fund will use a method that complies with Regulations under Section 704(b) and Section 704(c) of the Code to allocate gains and losses relating to its securities and will allocate all other tax items in accordance with Partnership Percentages (as defined in the Partnership Agreement). If the Fund were to deviate from the “safe harbor” methods as to certain items, it is possible that the IRS could consider the allocation inappropriate and require a different allocation of those tax items. This could result in a Limited Partner recognizing a greater or smaller amount of income, gain, loss or deduction than was reported. In addition, a Limited Partner that contributes property other than cash to the Fund will be specifically allocated tax items attributable to such property to the extent of the difference, if any, between the book value and the adjusted tax basis at the time of such contribution.

To achieve tax results similar to those that would be achieved if the Fund made a Section 754 election upon such events as a Limited Partner's withdrawal (see "Section 754 Election" below), without actually making the election (thereby avoiding certain accounting costs and complexities), the Partnership Agreement allows the General Partner to allocate to a fully or partially withdrawing Limited Partner income, gain and/or losses equal to the difference between that Limited Partner's Capital Account balance at the time of the withdrawal and the tax basis for his, her or its Interest at that time. To the extent such special allocations of income or gain are made, the withdrawing Limited Partner will be allocated income or gain from the Fund's activities in the year in which the withdrawal is effective, rather than recognizing a capital gain in the same amount in the year in which the payment for the withdrawal is received. This could result in some acceleration of taxable income if the withdrawal is close to the end of a taxable year, and could also result in the withdrawing Limited Partner being taxed at ordinary income rates on some or all of the amounts that would otherwise be taxed at favorable long-term capital gain rates. Furthermore, the IRS may challenge such an allocation as being without "substantial economic effect" and not in accordance with Limited Partners' Interests. If such a challenge were successful, the remaining Limited Partners could be considered to have underreported income and gains for the year for which the allocation was made, and the Fund and those Limited Partners could be subject to additional taxes as well as interest and penalties.

3. CHARACTERIZATION OF SECURITIES ACTIVITIES

Under the Code, individuals or entities that buy securities for resale to customers (as market-makers do) are considered "dealers." Dealers must recognize gains and losses differently, and are entitled to different deductions, than others who buy and sell securities. The General Partner believes that the Fund should not be considered a "dealer" for tax purposes.

Individuals and entities who are not "dealers" are either "traders" or "investors." In general, "traders" engage in a "trade or business" of buying and selling securities for their own accounts to take advantage of short term price changes. "Investors" buy securities for longer term appreciation. Whether one is a "trader" or an "investor" is not determined by a specific formula or set of objective criteria; it depends on an analysis of all the facts and circumstances involved in one's activities, taken as a whole. This characterization will affect, among other things, the extent to which Limited Partners may deduct certain items of Fund expenses for federal income tax purposes.

If the Fund engages in significant short term investment strategies that involve significant turnover as well as short-selling, the Fund may be considered a "trader" rather than an "investor" in securities. The Fund currently does not intend to make the election described in Section 475(f) of the Code (the "*mark-to-market election*"). If, in the future, the Fund determines to make the mark-to-market election, the effect of such election would be to require the Fund generally to recognize ordinary income or loss on all of its securities positions at the end of each taxable year as if the Fund had sold such securities for their fair market value on the last business day of such taxable year. If the Fund were to make the mark-to-market election, the Fund would recognize the appreciation or depreciation in its securities positions at the end of each taxable year regardless of whether or not such securities were disposed of during such taxable year.

If the IRS or a court were to disagree with the Fund's characterization of its status in a particular year, the IRS could determine that some Limited Partners had underreported their taxable income and the Fund and those Limited Partners could be subject to interest and penalties on the resulting tax deficiencies.

4. CHARACTER OF GAINS AND LOSSES GENERALLY

As discussed above, the Code allows securities traders to elect to apply certain mark-to-market accounting rules. Under these rules, all securities are deemed to have been sold at year end at their fair market value and all gains and losses that would be realized on such deemed sales are taken into account for that year as ordinary (as opposed to capital) gains. Any such election applies to all future tax years and can be revoked only with the consent of the IRS. The Fund currently does not intend to make such an election.

Certain rules, including the following, may affect the Fund's holding period for a security or may otherwise affect the characterization of certain gains and losses and the timing of realization.

Short Sales. Gains and losses from short sales are generally considered short-term capital gains and losses. However, under certain circumstances, such gains and losses will be considered long-term if the Fund covers the short position with securities it had held for the long-term holding period at the time it made the short sale. Making a short sale will terminate the holding period for "substantially identical property" (e.g., securities of the same class) the Fund holds long. Moreover, a loss on a short sale will be treated as a long-term capital loss if on the date of the short sale, "substantially identical property" has been held by the Fund for more than one year.

Anti-Conversion Rules. What would otherwise be capital gain from certain types of transactions (such as "straddles") may be taxed at ordinary income rates to the extent the gain results primarily from the time value of the taxpayer's investment.

Effect of Straddle Rules on Limited Partners' Securities Positions. Under the Code, the IRS may treat certain positions in securities held (directly or indirectly) by a Limited Partner and its indirect interest in similar securities held by the Fund as "straddles" for federal income tax purposes. The application of these "straddle" rules could affect a Limited Partner's holding period for the securities involved and could defer the recognition of losses as to such securities.

Constructive Sale Rules. The Code treats many common hedging transactions as constructive sales for tax purposes. In particular, if the Fund holds a security that has appreciated in value and sells securities of the same class short, enters into a futures or forward contract as to such securities or engages in similar transactions, it will be treated as if it had sold the appreciated securities.

Options. For options on certain broad-based stock indices, options on stock index futures, and certain other options (collectively "*Section 1256 Contracts*"), the Code generally applies a "mark-to-market" system of annually taxing unrealized gains and losses and otherwise provides for special rules of taxation. Under this system, Section 1256 Contracts held by the Fund at the end of each taxable year will be treated for federal income tax purposes as if they were sold by the Fund for their fair market value at that time. The net gain or loss, if any, resulting from such "deemed sales," together with any gain or loss resulting from actual sales of Section 1256 Contracts during the year, must be taken into account by the Fund in computing its taxable income for that year. If a Section 1256 Contract held by the Fund at the end of a taxable year is sold in the next year, the amount of any gain or loss realized on that sale will be adjusted to reflect the gain or loss previously taken into account under the "mark-to-market" rules. Forty percent (40%) of the aggregate net capital gain or loss for each year from such Section 1256 Contracts "deemed" sold is characterized as short-term capital gain or loss and sixty percent (60%) is characterized as long-term capital gain or loss. These gains and losses will be taxed under the general rules described above, and, in the case of losses, will be subject to the limitations generally applicable to capital losses.

The character of income and loss received in connection with stock options that are not Section 1256 Contracts involves a number of income tax rules. In general, gain or loss from the sale or exchange of an option has the same character as would gain or loss from a sale of the property underlying the option. The Fund generally will treat options on securities as capital assets.

Bonds with OID. If the Fund invests in zero-coupon bonds, Limited Partners will be required to include in income the imputed or "phantom" interest that accrues each year. All zero-coupon bonds will be, and certain other bonds the Fund acquires might be with original issue discount ("*OID*") within the meaning of Section 1273(a) of the Code. Limited Partners of the Fund generally must include OID in income for federal income tax purposes as it accrues, in advance of receipt of the cash attributable to such income.

The amount of a bond's OID is the excess of the bond's stated redemption price at maturity over its issue price. Generally, the issue price of a bond will be the first price at which a substantial amount of such bonds included in the issue of which a particular bond is a part is sold to persons other than bond houses, brokers, or similar person or organizations acting in the capacity of underwriters, placement agents, or wholesalers.

Limited Partners must include their portion of OID in income calculated on a constant-yield method before the receipt of cash attributable to the income, and generally will have to include in income increasingly greater amounts of OID over the life of the bond. The amount of OID includible in income by a Limited Partner is the sum of the daily portions of OID with respect to the bond for each day during the taxable year or portion of the taxable year on which the Fund holds the bond ("*accrued OID*"). The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to a bond may be of any length selected by the Fund and may vary in length over the term of the bond as long as (i) no accrual period is longer than one year; and (ii) each scheduled payment of interest or principal on the bond occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of the bond's adjusted issue price at the beginning of the accrual period and the bond's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of interest on the bond allocable to the accrual period. The "adjusted issue price" of a bond at the beginning of any accrual period is the issue price of the bond increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of payments previously made on the bonds that were not interest payments.

Currency Fluctuations – "Section 988" Gains or Losses. To the extent that investments are made in securities denominated in a non-U.S. currency, gain or loss realized by the Fund frequently will be affected by the fluctuation in the value of such non-U.S. currencies relative to the value of the U.S. dollar. Gains or losses with respect to the Fund's investments in common stock of non-U.S. issuers will generally be taxed as capital gains or losses at the time of the disposition of the stock, subject to certain exceptions specified in the Code. In particular, gains and losses of the Fund on the acquisition and disposition of non-U.S. currency (for example, the purchase of non-U.S. currency and subsequent use of the currency to acquire stock) will be treated as ordinary income or loss. In addition, gains or losses on disposition of debt securities denominated in a non-U.S. currency to the extent attributable to fluctuation in the value of the non-U.S. currency between the date of acquisition of the debt security and the date of disposition will be treated as ordinary income or loss. Gains or losses attributable to fluctuations in exchange rates that occur between the time the Fund accrues interest or other receivables or accrues expenses or other liabilities denominated in a non-U.S. currency and the time the Fund collects the receivables or pays the liabilities may be treated as ordinary income or ordinary loss.

Investments in Certain Non-U.S. Corporations. Under various "anti-deferral" provisions of the Code (the "passive foreign investment company" ("PFIC") and "controlled foreign corporation" provisions), investments, if any, by the Fund in certain non-U.S. corporations may cause an Investor (i) to recognize taxable income prior to the Fund's receipt of distributable proceeds, (ii) pay an interest charge on receipts that are deemed as having been deferred, or (iii) recognize ordinary income that, but for the "anti-deferral" provisions, would have been treated as long-term or short-term capital gain.

If the Fund were to invest in a PFIC, the Fund could elect to treat its interest in the PFIC as a "qualified electing fund" (a "QEF") under the Code, if certain requirements are met. Upon making such an election, the Fund would be required to include in income each year a portion of the ordinary earnings and net capital gains of the QEF, even if not distributed to the Fund or the Investors. Alternatively, an election may be made in the case of certain "marketable stock" to "mark-to-market" the stock of a PFIC on an annual basis. Pursuant to such an election, a U.S. Investor would include in each year as ordinary

income the excess, if any, of the fair market value of such stock over its adjusted basis at the end of the taxable year. There can be no assurance that a company in which the Fund invests will not qualify as a PFIC or that a PFIC in which the Fund does invest will provide the information necessary for a QEF election to be made.

5. CONTRIBUTIONS

Generally, a contribution of cash to the Fund is not a taxable event to the contributing Limited Partner or to the Fund. Although it may accept securities or any other property as a contribution to the Fund, the General Partner generally does not expect to do so. A Limited Partner that contributes securities to the Fund could be subject to tax on any appreciation in those securities at the time of contribution; however, no loss would be allowed at the time of contribution if the securities had declined in value.

6. BASIS

A Limited Partner's adjusted basis for his, her or its Interest will equal his, her or its initial basis in the Interest (*i.e.*, cash contributed) increased by (a) any further capital contributions, (b) his, her or its distributive share of the Fund's income (including tax-exempt income), and (c) any increase in his, her or its share of any debt of the Fund and decreased (but not below zero) by (x) distributions (including withdrawals) made to him, her or it, (y) his, her or its distributive share of any Fund deductions or losses, and (z) any decrease in his, her or its share of any debt of the Fund.

7. DISTRIBUTIONS

A Limited Partner may be taxed on his, her or its "distributive" share of the Fund's taxable income or gain regardless of whether he, she or it has received any corresponding distribution from the Fund. Because no regular distributions are contemplated, a Limited Partner may have to withdraw capital from the Fund in order to pay tax liabilities arising from the allocation of his, her or its share of the Fund's taxable income. Furthermore, in light of the restrictions on withdrawals imposed by the Partnership Agreement, and the possibility that a withdrawal may be completed with securities (which may be illiquid) rather than cash, it is possible that, notwithstanding the withdrawal provisions, the only source for payment of such tax liabilities would be from the Limited Partner's funds from sources other than the Fund.

Whether a particular distribution (generally upon a withdrawal of capital) causes the Limited Partner receiving it to realize taxable income or tax loss depends on whether assets other than cash are distributed, whether the Limited Partner remains a Limited Partner after the distribution/withdrawal (*i.e.*, whether the distribution "liquidates" the Limited Partner's Interest) and the relation of the cash distributed to the Limited Partner's basis in his, her or its Interest in the Fund.

Non-Liquidating Distributions. Where a Limited Partner remains a Limited Partner after a withdrawal or other distribution, a distribution generally will cause him, her or it to realize taxable income only if and to the extent the cash distributed exceeds the Limited Partner's adjusted basis in his, her or its Interest. For these purposes, any decrease in a Limited Partner's share of the Fund's debt will be treated as a distribution of cash to the Limited Partner. Distributions to continuing Limited Partners will not cause tax losses to be realized. Cash distributions will reduce the receiving Limited Partner's basis in his, her or its Interest. Taxable gain upon a distribution would generally be taxable as short-term or long-term capital gain, depending on the Limited Partner's holding period for the Interest. However, the Fund may, upon a full or partial withdrawal, specially allocate income, gain and losses to the withdrawing Limited Partner in a manner that could convert what would otherwise be capital gains to ordinary income or long-term capital gains into short-term capital gains. (See the discussion under the heading "Partnership Allocations" above). In addition, in the unlikely event the Fund were deemed to have "unrealized receivables" (including unrealized income from certain bonds acquired at a discount) or "inventory" at the time of a distribution, Section 751 of the Code could require different treatment.

A distribution of property other than cash (*i.e.*, securities) to a continuing Limited Partner should not result in taxable income or loss to the Fund or to the receiving Limited Partner (again, except to the extent Section 751 applies).¹

The distributee Limited Partner's basis in the distributed property will be the lesser of (i) the adjusted basis of the property in the hands of the Fund and (ii) the adjusted basis of the Limited Partner's Interest (after reduction for any cash he, she or it received as part of the distribution). The basis of a Limited Partner's Interest will be reduced by the basis of the property distributed to that Limited Partner.

Liquidating Distributions. When a Limited Partner withdraws from the Fund completely or his, her or its Interest is terminated because the Fund is liquidated, as with non-liquidating distributions, he, she or it will recognize gain only to the extent the cash distributed exceeds the adjusted basis in his, her or its Interest in the Fund. Unlike with non-liquidating distributions, loss may be recognized if no property other than cash is distributed and the cash distributed is less than the Limited Partner's adjusted basis in his, her or its Interest. If property other than cash is distributed, although gain will be recognized to the extent the cash exceeds the Limited Partner's adjusted basis, no loss will be recognized, regardless of the value of the non-cash property distributed. The Limited Partner's basis in non-cash property so distributed will be equal to the adjusted basis of his, her or its Interest immediately before the distribution decreased (but not below zero) by any cash received in the liquidation.

8. SECTION 754 ELECTION

Section 754 of the Code allows a Tax Partnership to elect to adjust the basis of its assets upon (a) certain distributions of money or property to a Limited Partner, or (b) a transfer of an Interest by sale or as a result of the death of a Limited Partner. The general effect of making that election when a Limited Partner has received a distribution of cash would be that the adjusted bases of the Fund's capital assets would be increased by any capital gain (or decreased by any loss) recognized by the Limited Partner who receives the distribution. Where other property is distributed, the adjustments would reflect the difference, if any, between the adjusted bases of the distributed property in the hands of the Fund and the adjusted bases of the property in the hands of the Limited Partner who receives it. There would be no effect on the Limited Partner who receives the distribution in either event. In the case of a transfer of an Interest, when the Fund later sells assets that were held at the time of the transfer, the transferee would be treated as if he, she or it had directly acquired a share of each of the Fund's assets, with a basis for each of those assets equal in the aggregate to the bases of his, her or its Interest immediately after the transfer. In light of the nature and extent of the Fund's expected buying and selling activities, and the likelihood that capital contributions and withdrawals will occur throughout the term of the Fund, it could be impracticable for the Fund to comply strictly with the basis adjustment rules that would apply if the Fund were to make Section 754 elections. The General Partner has discretion whether or not to make a Section 754 election, but once such an election has been made, it remains in effect for all subsequent taxable years unless revoked with the consent of the IRS, and each subsequent distribution or transfer will result in the adjustments described above.

If the General Partner does not elect to make adjustments under Section 754 of the Code, any benefits that might be available to a transferee of an Interest, or to remaining Limited Partners after a substantial withdrawal, by reason of a possible "step-up" in the basis of the Fund's assets may not be available. However, in the case of withdrawals, the remaining Limited Partners may receive a comparable benefit if the General Partner chooses to specifically allocate items of income and gain to the withdrawing Limited Partner.

¹ Generally, for Investors other than "investment companies," distributions of marketable securities are treated like distributions of cash and can result in taxable income. However, the Partnership expects to qualify as an "investment company" and expects Investors to be "eligible members" within the meaning of certain rules. This discussion is based on those assumptions and expectations.

The General Partner may adopt an allocation methodology designed to reconcile tax allocations to economic allocations by allocating taxable gains and losses in a manner that reduces discrepancies between a partner's Capital Account value and tax basis in the Fund. In addition, the Fund may allocate taxable gains, income and/or losses to a partner who withdraws all or a portion of his Capital Account in the Fund to the extent the capital withdrawn differs from the federal income tax basis of the capital withdrawn. However, no assurance can be given that the IRS will not challenge such allocations.

A downward adjustment to the basis of partnership property, as if a Section 754 election were in effect, is required in the case of a distribution of cash or property by a partnership to a partner with respect to which there is a "substantial basis reduction." A substantial basis reduction occurs in connection with a distribution of cash or property by a partnership to a partner if the distribution would result in a downward adjustment of more than \$250,000 to the basis of partnership property if an election under Code Section 754 were in effect. Downward adjustments to the basis of partnership property are mandatory in the case of a transfer of a partnership interest if the partnership has a "substantial built-in loss" immediately after such transfer. A substantial built-in loss exists if the partnership's adjusted basis in its property exceeds the fair market value of the property by more than \$250,000. An "electing investment partnership" is not treated as having a substantial built-in loss, and thus is not required to make basis adjustments to partnership property in the case of a transfer of a partnership interest. The Fund does not anticipate that it will elect to be an electing investment partnership.

9. LIMITATIONS ON DEDUCTIONS

The ability of certain Limited Partners to deduct or otherwise utilize the Fund's losses or deductions allocated to them may be limited by special provisions of the Code, including, but not limited to, the following:

Adjusted Basis of an Interest. A Limited Partner may not deduct losses in excess of the adjusted basis of his, her or its Interest at the end of the year in which the loss is incurred. Losses in excess of a Limited Partner's adjusted basis may be carried over to succeeding taxable years when the same limitation will apply. (See "Basis" above).

Amounts at Risk. The amount of loss an individual or a closely held "C" corporation may deduct is limited to the amount that a Limited Partner is "at risk" as to the Fund. Where such a Limited Partner has financed an investment in the Fund with certain types of nonrecourse borrowing, that Limited Partner's amount "at risk" could be less than his, her or its adjusted basis in his, her or its Interest. In addition, in the event the Fund borrowed on a nonrecourse basis, certain of those borrowings could increase a Limited Partner's basis without increasing his, her or its amount at risk.

Capital Gains and Losses. Fund net capital losses allocated to a Limited Partner for a taxable year will be deductible by a Limited Partner that is a corporation to the extent of the corporate Limited Partner's capital gains and by an individual Limited Partner to the extent of his, her or its capital gains plus \$3,000. An individual Limited Partner may carry forward any unused capital loss indefinitely to succeeding taxable years and a corporate Limited Partner generally will be entitled to a three-year carryback and a five-year carryforward of any unused capital loss.

Alternative Minimum Tax. Investors that are subject to the alternative minimum tax (the "AMT") should consider the tax consequences of an investment in the Fund in view of their AMT position, taking into account the special rules that apply in computing the AMT, including the adjustments to depreciation deductions, the special limitations as to the use of net operating losses and, in the case of individual taxpayers, the complete disallowance of miscellaneous itemized deductions and deductions for state and local taxes.

10. MEDICARE TAX

For taxable years beginning after December 31, 2012, Limited Partners who are individuals, estates or certain trusts will be subject to a 3.8% Medicare tax on certain investment income such as interest and dividends. Prospective Investors should consult their tax advisors regarding the possible applicability of the Medicare tax to income and gain in respect of an investment in the Fund.

11. LIMITATIONS ON INTEREST DEDUCTIONS

An individual may deduct “investment interest” in a given year only to the extent of his, her or its “net investment income” for that year. Because an Interest should be considered to give rise to “portfolio” income or loss, interest on amounts an individual Limited Partner borrows to buy an Interest should be considered “investment interest.” An individual Limited Partner may be denied a deduction for all or part of these types of interest expense unless the Limited Partner has sufficient investment income from the Fund and other sources. Income of the Fund, such as dividend and interest income but excluding net capital gains and qualified dividend income (absent a special election in either case), allocable to an individual Limited Partner should be treated as investment income for purposes of this limitation.

12. PASSIVE LOSSES AND INCOME

In years in which the Fund is treated as a “trader,” each Limited Partner should be allowed fully to deduct his, her or its allocable share of the ordinary and necessary expenses incurred by the Fund in connection with the Fund’s “trade or business,” including management expenses. If the Fund were treated as an “investor” for any year, individual Limited Partners would be entitled to deduct their share of the Fund’s investment expenses, including the Fund’s advisory expenses and certain other expenses that relate to investment activities, unless, and only to the extent, their share of those expenses, together with their other “miscellaneous” itemized deductions, exceed two percent (2%) of their adjusted gross income for the year. This limitation would also apply to Limited Partners that are “pass-through” entities, such as partnerships, to the extent the owners of those entities were individuals. Investment interests expense is not treated as a “miscellaneous” itemized deduction. However, a Limited Partner’s investment interest expense deduction is limited to the Limited Partner’s investment income for the year.

In addition, the Code further restricts the ability of an individual with an adjusted gross income in excess of a specified amount to deduct such investment expenses. Moreover, such investment expenses are miscellaneous itemized deductions which are not deductible by a noncorporate taxpayer in calculating its alternative minimum tax liability.

13. ADMINISTRATIVE MATTERS; TAX AUDITS

Each Limited Partner must either report all Fund items consistently with the treatment by the Fund or disclose specifically in his, her or its tax return any differences between the manner in which the Fund item is treated on his, her or its return and on the Fund’s return. Such disclosure may be necessary to avoid the penalty for understatement. Since the General Partner does not expect to notify Limited Partners as to the basis for items reported on the Fund’s return or the Schedules K-1, Limited Partners, or their tax advisors, may wish to ask the General Partner about significant reported items if they wish to make a systematic evaluation of their exposure to this penalty. If it is finally determined that a taxpayer has underpaid tax for any taxable year, the taxpayer must pay the amount of underpayment plus interest on the underpayment from the date the tax was originally due.

In general, the tax treatment of all Fund items will be determined in a unified tax audit for the Fund rather than in an audit of the individual Limited Partners. Tax audits will generally be handled by the “tax matters partner” (the “TMP”), but other Limited Partners will be entitled to participate in the audit and appellate conference. The General Partner will be the TMP for the Fund. If a deficiency is proposed by the IRS, a notice

of final partnership administrative adjustment will be issued. The TMP can contest that determination on behalf of the Fund in the Tax Court or other court of its choice. If the TMP chooses to contest the deficiency, other Limited Partners can join the proceeding but cannot bring separate actions. The legal and accounting costs incurred in connection with any audit of the Fund's tax return will be borne by the Fund. The cost of any audit of a Limited Partner's tax return will be borne solely by the Limited Partner.

The statute of limitations applicable to Fund items differs from the statute applicable to each Limited Partner's individual return. The TMP has the authority to extend the statute of limitations on behalf of the Fund. Any extension will be binding on the Limited Partners.

An audit of the Fund's return may result in the disallowance, reallocation or deferral of deductions claimed by the Fund. The audit may also result in transactions being treated as taxable which the Fund treated as nontaxable or in treatment as ordinary income or capital loss of items which the Fund reported as long-term capital gain or ordinary loss. Any such change may trigger additional tax and interest. An audit by the IRS could also affect a Limited Partner's liability for state and local taxes.

If the IRS audits the Fund's tax returns, an audit of the Limited Partners' own returns may result, and adjustments may be made to items reported on the Limited Partners' tax returns unrelated to the Fund.

14. STATE AND LOCAL TAXES

Prospective Investors should consult their own tax advisors as to the application of income and other taxes imposed in their states of residence, and in states where they may be deemed to be engaged in business, with respect to their investment in the Fund.

15. UNRELATED BUSINESS TAXABLE INCOME

Generally, an exempt organization is exempt from federal income tax on certain categories of income, such as dividends, interest, capital gains and similar income realized from securities investment or trading activity, whether realized by the organization directly or indirectly through a partnership in which it is a partner. This type of income is exempt even if it is realized from securities trading activity which constitutes a trade or business.

This general exemption from tax does not apply to the "unrelated business taxable income" ("UBTI") of an exempt organization. Generally, except as noted above with respect to certain categories of exempt trading activity, UBTI includes income or gain derived (either directly or through partnerships) from a trade or business, the conduct of which is substantially unrelated to the exercise or performance of the organization's exempt purpose or function. UBTI also includes "unrelated debt-financed income," which generally consists of (i) income derived by an exempt organization (directly or through a partnership) from income-producing property with respect to which there is "acquisition indebtedness" at any time during the taxable year, and (ii) gains derived by an exempt organization (directly or through a partnership) from the disposition of property with respect to which there is "acquisition indebtedness" at any time during the twelve-month period ending with the date of such disposition. With respect to its investments in partnerships engaged in a trade or business, or in the funding of a plan of reorganization, the Fund's income (or loss) from these investments will constitute UBTI.

The Fund expects to incur "acquisition indebtedness" with respect to certain of its transactions, such as the purchase of securities on margin. Based upon published rulings issued by the IRS which generally hold that income and gain with respect to short sales of publicly traded stock do not constitute income from debt financed property for purposes of computing UBTI, the Fund will treat its short sales of publicly traded stock as not involving "acquisition indebtedness" and therefore not resulting in UBTI. To the extent the Fund recognizes income (*i.e.*, dividends and interest) from securities with respect to which there is "acquisition

indebtedness” during a taxable year, the percentage of such income which will be treated as UBTI generally will be based on the percentage which the “average acquisition indebtedness” incurred with respect to such securities is of the “average amount of the adjusted basis” of such securities during the taxable year.

A prospective Investor should consult its tax advisor with respect to the tax consequences of receiving UBTI from the Fund, including whether receipt of UBTI is permitted under the specific rules applicable to the prospective Investor.

16. CERTAIN ISSUES PERTAINING TO SPECIFIC EXEMPT ORGANIZATIONS

Private Foundations. Private foundations and their managers are subject to excise taxes if they invest “any amount in such a manner as to jeopardize the carrying out of any of the foundation’s exempt purposes.” This rule requires foundation managers, in making an investment, to exercise “ordinary business care and prudence” under the facts and circumstances prevailing at the time of making the investment, in providing for the short-term and long-term needs of the foundation to carry out its exempt purposes. The factors that a foundation manager may take into account in assessing an investment include the expected rate of return (both income and capital appreciation), the risks of rising and falling price levels and the needs for diversification within the foundation’s portfolio.

In order to avoid the imposition of an excise tax, a private foundation may be required to distribute on an annual basis its “distributable amount,” which includes, among other things, the private foundation’s “minimum investment return,” defined as five percent (5%) of the excess of the fair market value of its nonfunctionally related assets (assets not used or held for use in carrying out the foundation’s exempt purposes), over certain indebtedness incurred by the foundation in connection with such assets. It appears that a foundation’s investment in the Fund would most probably be classified as a nonfunctionally related asset. A determination that an Interest in the Fund is a nonfunctionally related asset could conceivably cause cash flow problems for a prospective Limited Partner which is a private foundation. Such an organization could be required to make distributions in an amount determined by reference to unrealized appreciation in the value of its Interest in the Fund.

In some instances, an investment in the Fund by a private foundation may be prohibited by the “excess business holding” provisions of the Code. For example, if a private foundation (either directly or together with a “disqualified person”) acquires more than twenty percent (20%) of the capital interest or profits interest of the Fund, the private foundation may be considered to have an “excess business holding.” If this occurs, such foundation may be required to divest itself of its Interest in the Fund in order to avoid the imposition of an excise tax.

A substantial percentage of investments of certain “private operating foundations” may be restricted to assets directly devoted to their tax-exempt purposes. Otherwise, generally, rules similar to those discussed above govern their operations.

Qualified Retirement Plans. Employee benefits plans and other Investors subject to the provisions of ERISA should consult their counsel as to the implications of such an investment under ERISA.

Endowment Funds. Investment managers of endowment funds should consider whether the acquisition of an Interest is legally permissible. This is not a matter of federal law, but is determined under state statutes. It should be noted, however, that under the Uniform Management of Institutional Funds Act, which has been adopted, in various forms, by a large number of states, participation in investment partnerships or similar organizations in which funds are commingled and investment determinations are made by persons other than the governing board of the endowment fund is allowed.

Charitable Remainder Trusts. An investment in the Fund may be inappropriate for a charitable remainder trust. Pursuant to Code section 664(c), a charitable remainder trust is subject to a one hundred

percent (100%) excise tax on any unrelated business taxable income the trust has during a taxable year. The General Partner anticipates that the Fund may invest on margin and purchase other assets under circumstances that may be deemed to involve acquisition indebtedness, and thus may generate unrelated business taxable income. See “Unrelated Business Taxable Income” above. A charitable remainder trust should consult with its own tax advisors before determining to invest in the Fund.

SECTION XII. GENERAL INFORMATION

The rights and obligations of Investors will be governed by the Partnership Agreement, attached as *Appendix C* hereto. The following briefly summarizes certain provisions of the Partnership Agreement that are not described elsewhere in this Memorandum. Prospective Investors are urged to read the Partnership Agreement in its entirety before subscribing.

A. DESCRIPTION OF THE FUND'S INTERESTS

1. GENERAL

The Fund has been organized as a limited partnership under Delaware law. Forward Management, LLC, a Delaware limited liability company, is the Fund's General Partner. The Partnership Agreement provides that the General Partner will have complete control of the business of the Fund and that the Limited Partners will have no power to take part in the management of the Fund.

2. TERM

The term of the Fund will continue indefinitely, unless terminated in accordance with the Partnership Agreement. The General Partner, in its discretion, may terminate and liquidate the Fund before that date by providing at least fifteen (15) days' prior written notice to Investors. Upon its dissolution, the Fund will liquidate its positions and distribute the net proceeds to its Limited Partners in an orderly and prudent fashion. The General Partner may select a "liquidator" to wind up the Fund's affairs if the Fund is dissolved because the General Partner has ceased to be the General Partner.

3. LIABILITY OF LIMITED PARTNERS

The Partnership Agreement generally provides that to the fullest extent permitted by applicable law, no Investor will be personally liable for any of the debts of the Fund.

4. FISCAL YEAR; FINANCIAL STATEMENTS; AUDITORS

The fiscal year of the Fund ends on December 31 of each year, and the first full fiscal year of the Fund will end on December 31, 2011.

Each Investor will receive audited annual financial statements and unaudited monthly summaries of the Fund's performance together with copies of his, her or its Schedule K-1 to the Fund's income tax return. The Fund's financial statements will be prepared on the basis of accounting standards generally accepted in the United States of America. The General Partner, in its sole and absolute discretion, may from time to time furnish additional reports to Investors. The Fund reserves the right to make interim reports available solely in electronic form on the web site of the Fund or its Administrator, and Investors hereby agree to accept such electronic delivery in satisfaction of any regulatory requirements under any applicable law.

PricewaterhouseCoopers LLP will serve as the independent auditor of the Fund. The General Partner has the right to change its selection of an auditor at any time without Investor consent or notice.

5. AMENDMENTS TO THE PARTNERSHIP AGREEMENT

The Partnership Agreement may be amended by the General Partner in any manner that does not adversely affect the rights of Investors, and otherwise by action taken by both the General Partner and affected Investors holding a specified percentage of the aggregate Capital Account balances of all affected Investors. In the event the General Partner requires the consent of the Limited Partners in order to take action,

and written notice of such action is mailed to such Limited Partners, those Limited Partners not affirmatively objecting in writing within fifteen (15) days after such notice is mailed shall be deemed to have consented to the proposed action set forth in the General Partner's notice.

6. LIMITATIONS ON TRANSFERABILITY

Investors may not transfer their Interests except as permitted in the Partnership Agreement. All transfers require the prior consent of the General Partner, which may be withheld in the General Partner's sole and absolute discretion. The General Partner may transfer or assign all or part of its interest in the Fund under certain circumstances.

7. ARBITRATION

See "Certain Risk Factors – Risks Associated with the Structure and Operation of the Fund – Arbitration" above for a description of the mandatory arbitration provisions contained in the Partnership Agreement and the Subscription Documents.

8. ADDITIONAL INFORMATION

The General Partner is available to answer prospective Investor's questions and will make available any additional information to the extent such information can be obtained without unreasonable effort or expense. Prospective Investors and/or their advisors are invited to communicate with the General Partner at 101 California Street, Suite 1600, San Francisco, California 94111 or (415) 869-6300.

APPENDIX A
ADMISSION STANDARDS

A. GENERAL

Generally, Interests will be sold only to US Investors who are Accredited Investors and Qualified Clients.

To qualify as an Accredited Investor, an Investor must satisfy the definition of Accredited Investor under Rule 501(a) promulgated by the SEC under the Securities Act. Currently, to be treated as an Accredited Investor, an Investor must satisfy one of the following tests:

- Individuals. If the Investor is an individual, the Investor must represent that he or she has a net worth in excess of US\$1,000,000 (exclusive of the value of such Investor's primary residence and any indebtedness secured by the primary residence (*e.g.*, mortgage) only up to the fair market value of the residence), or meets an alternative income test.
- Certain Qualified Plans. A benefit plan qualified under US tax law (a "*Qualified Plan*") will be treated as an Accredited Investor if (i) for a self-directed plan, all the plan's participants are Accredited Investors, (ii) the investment decision is made by a plan fiduciary that is either a bank, an insurance fund or a registered investment adviser or (iii) it has total assets in excess of US\$5,000,000.
- Other Tax-Exempt Entities. Any organization described in Rule 501(c) promulgated by the SEC under the Securities Act with total assets in excess of US\$5,000,000 will be considered an Accredited Investor.
- Trusts. A revocable trust will generally be treated as an Accredited Investor if each grantor is an Accredited Investor and the grantors may amend or revoke the trust at any time. An irrevocable trust will generally be treated as an Accredited Investor if (i) it has total assets in excess of US\$5,000,000 and was not formed for the specific purpose of acquiring Interests and its investment in Interests is directed by a person experienced in financial and business matters who is capable of evaluating the merits and risks of such investment or (ii) the trustee of the trust is a bank, and it makes the decision to invest in Interests on behalf of the trust.
- Other Purchasers. Other accreditation standards are described in the Questionnaire.

To qualify as a Qualified Client, an Investor must satisfy the definition of Qualified Client under Rule 205-3 under the Advisers Act. Currently, to be treated as a Qualified Client, an Investor must satisfy one of the following tests:

- Individuals and Institutions. The Investor must represent that he, she or it has at least U.S.\$750,000 under the management of the General Partner or has a net worth (together, in the case of a natural person, with assets held jointly with a spouse) of more than U.S.\$1,500,000.
- Knowledgeable Employees. Executive Officers and so-called "Knowledgeable Employees" of the Fund or the General Partner (as defined by Rule 3c-5 under the Investment Company Act) may invest in the Fund without qualifying as Qualified Clients.

APPENDIX B
SUBSCRIPTION BOOKLET

APPENDIX C
LIMITED PARTNERSHIP AGREEMENT

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