

No.: \_\_\_\_\_

Issued To: \_\_\_\_\_

*Confidential Private Placement Memorandum*

**CONTINENTAL PARTNERS, L.P.**

**LIMITED PARTNERSHIP INTERESTS**

**MINIMUM INITIAL INVESTMENT: \$500,000**

**General Partner**

**CONTINENTAL ADVISORS LLC**

227 West Monroe, Suite 5050

Chicago, Illinois 60606

Telephone: 312-377-3777

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**December 15, 2009**

## **GENERAL NOTICES**

**THIS CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM (THE “MEMORANDUM”) CONSTITUTES AN OFFER ONLY TO THE PERSON WHOSE NAME APPEARS ON THE FIRST PAGE OF THIS MEMORANDUM AND ONLY IF DELIVERY OF THIS MEMORANDUM IS PROPERLY AUTHORIZED BY CONTINENTAL ADVISORS LLC (THE “GENERAL PARTNER”). THIS MEMORANDUM HAS BEEN PREPARED BY THE GENERAL PARTNER SOLELY FOR THE BENEFIT OF PERSONS INTERESTED IN INVESTING IN A LIMITED PARTNERSHIP INTEREST (AN “INTEREST”) ISSUED BY CONTINENTAL PARTNERS, L.P. (THE “FUND”). ANY DISTRIBUTION OR REPRODUCTION OF THIS MEMORANDUM, IN WHOLE OR IN PART, BY PERSONS OTHER THAN THE GENERAL PARTNER IS PROHIBITED.**

**THE OFFEREE, BY ACCEPTING RECEIPT OF THIS MEMORANDUM, AGREES NOT TO DUPLICATE OR TO FURNISH COPIES OF THIS MEMORANDUM TO ANY PERSON OTHER THAN SUCH OFFEREE’S ADVISORS, AND FURTHER AGREES PROMPTLY EITHER TO DESTROY OR RETURN THIS MEMORANDUM TO THE GENERAL PARTNER SHOULD THE OFFEREE DECIDE NOT TO INVEST IN AN INTEREST. IF THE OFFEREE DOES DECIDE TO INVEST IN AN INTEREST, THIS MEMORANDUM SHOULD BE RETAINED FOR FUTURE REFERENCE.**

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**THE INTERESTS ARE BEING OFFERED EXCLUSIVELY ON A PRIVATE PLACEMENT BASIS TO FINANCIALLY SOPHISTICATED AND GENERALLY HIGH NET WORTH AND INSTITUTIONAL INVESTORS.**

**THERE IS NO SECONDARY MARKET FOR THE INTERESTS. INVESTORS IN THE FUND (“LIMITED PARTNERS”) MAY NOT TRANSFER THEIR INTEREST WITHOUT THE GENERAL PARTNER’S PERMISSION, AND THERE ARE MATERIAL RESTRICTIONS ON LIMITED PARTNERS’ ABILITY TO WITHDRAW CAPITAL FROM THE FUND.**

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**THE FUND IS NOT INTENDED AS A COMPLETE INVESTMENT PROGRAM. THE INTERESTS INVOLVE SUBSTANTIAL RISK AND ARE SUITABLE ONLY FOR A LIMITED PORTION OF THE RISK SEGMENT OF A PROSPECTIVE INVESTOR’S PORTFOLIO. PROSPECTIVE INVESTORS MUST BE PREPARED TO LOSE ALL OR SUBSTANTIALLY ALL OF THEIR INVESTMENT IN THE FUND. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.**

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**THE GENERAL PARTNER WILL MAKE AVAILABLE TO EACH PROSPECTIVE INVESTOR OR HIS INVESTMENT ADVISOR THE OPPORTUNITY TO ASK QUESTIONS OF AND RECEIVE ANSWERS FROM THE GENERAL PARTNER CONCERNING THE FUND AND ITS OPERATIONS AND TO OBTAIN ANY ADDITIONAL RELATED INFORMATION NECESSARY TO VERIFY THE ACCURACY OF THIS MEMORANDUM, TO THE EXTENT THAT THE GENERAL PARTNER POSSESSES SUCH INFORMATION OR CAN ACQUIRE IT WITHOUT UNREASONABLE EFFORT OR EXPENSE.**

**NO PERSON HAS BEEN AUTHORIZED TO MAKE ANY REPRESENTATIONS OR PROVIDE ANY INFORMATION WITH RESPECT TO THE INTERESTS EXCEPT THOSE CONTAINED IN THIS MEMORANDUM. PROSPECTIVE INVESTORS MUST SUBSCRIBE FOR THE INTERESTS BASED SOLELY ON THE INFORMATION INCLUDED IN THIS MEMORANDUM, IRRESPECTIVE OF WHATEVER ADDITIONAL INFORMATION THEY MAY RECEIVE FROM OTHER SOURCES, INCLUDING THE GENERAL PARTNER.**

**PROSPECTIVE INVESTORS SHOULD NOT CONSTRUE THE CONTENTS OF THIS MEMORANDUM AS INVESTMENT, LEGAL OR TAX ADVICE. A NUMBER OF FACTORS MATERIAL TO A DECISION WHETHER TO INVEST IN THE INTERESTS, INCLUDING FINANCIAL AND TAX RISKS, HAVE BEEN REFERRED TO IN THIS MEMORANDUM IN SUMMARY OR OUTLINE FORM ONLY IN RELIANCE ON THE FINANCIAL SOPHISTICATION AND SUITABILITY OF ALL OFFEREEES. EACH PROSPECTIVE INVESTOR IS URGED TO SEEK INDEPENDENT INVESTMENT, LEGAL AND TAX ADVICE RELATIVE TO DETERMINING THE SUITABILITY FOR SUCH INVESTOR OF AN INVESTMENT IN THE FUND.**

**NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THIS MEMORANDUM, EACH LIMITED PARTNER (AND EACH EMPLOYEE, REPRESENTATIVE OR OTHER AGENT OF THE LIMITED PARTNER) MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE TAX TREATMENT AND TAX STRUCTURE OF THE TRANSACTIONS DESCRIBED IN THIS MEMORANDUM AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) THAT ARE PROVIDED TO THE LIMITED PARTNER RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE. THIS AUTHORIZATION OF TAX DISCLOSURE IS RETROACTIVELY EFFECTIVE TO THE COMMENCEMENT OF DISCUSSIONS BETWEEN THE FUND OR ITS REPRESENTATIVES AND THE LIMITED PARTNER REGARDING THE TRANSACTIONS CONTEMPLATED HEREIN.**

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**AN INVESTMENT IN THE INTERESTS IS SUBJECT TO RISK OF LOSS.**

**SEE “CERTAIN RISK FACTORS”**

## **SECURITIES LAW NOTICES**

### **FOR RESIDENTS OF ALL STATES:**

**IN MAKING AN INVESTMENT DECISION, PROSPECTIVE INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE FUND AND THE TERMS OF THE OFFERING OF ITS INTERESTS, INCLUDING THE MERITS AND RISKS INVOLVED. THE INTERESTS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR OTHER REGULATORY OR SELF-REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

**THE INTERESTS ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. LIMITED PARTNERS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISK OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.**

### **FOR FLORIDA INVESTORS:**

**IF THE PROSPECTIVE INVESTOR IS NOT A BANK, A TRUST COMPANY, A SAVINGS INSTITUTION, AN INSURANCE COMPANY, A DEALER, AN INVESTMENT COMPANY AS DEFINED IN THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE “COMPANY ACT”), A PENSION OR PROFIT-SHARING TRUST, OR A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT), THE PROSPECTIVE INVESTOR ACKNOWLEDGES THAT ANY SALE OF THE INTERESTS TO THE PROSPECTIVE INVESTOR IS VOIDABLE BY THE PROSPECTIVE INVESTOR EITHER WITHIN THREE DAYS AFTER THE FIRST TENDER OF CONSIDERATION IS MADE BY THE PROSPECTIVE INVESTOR TO THE FUND, OR AN AGENT OF THE FUND, OR WITHIN THREE DAYS AFTER THE AVAILABILITY OF THAT PRIVILEGE IS COMMUNICATED TO THE PROSPECTIVE INVESTOR, WHICHEVER OCCURS LATER.**

## **PRIVACY POLICY**

THE GENERAL PARTNER IS COMMITTED TO PROTECTING THE PRIVACY OF LIMITED PARTNERS' NONPUBLIC PERSONAL INFORMATION ("PERSONAL INFORMATION"). PERSONAL INFORMATION IS NONPUBLIC INFORMATION ABOUT A NATURAL PERSON INVESTOR THAT IS PERSONALLY IDENTIFIABLE AND THAT THE GENERAL PARTNER OBTAINS IN CONNECTION WITH PROVIDING A FINANCIAL PRODUCT OR SERVICE TO A LIMITED PARTNER. THIS POLICY DESCRIBES THE PERSONAL INFORMATION THAT THE GENERAL PARTNER COLLECTS ABOUT LIMITED PARTNERS, AND ITS TREATMENT OF THAT INFORMATION. THE GENERAL PARTNER COLLECTS PERSONAL INFORMATION ABOUT LIMITED PARTNERS FROM THE FOLLOWING SOURCES: (I) INFORMATION THE GENERAL PARTNER RECEIVES FROM A LIMITED PARTNER ON FUND SUBSCRIPTION DOCUMENTS AND RELATED FORMS (FOR EXAMPLE, NAME, ADDRESS, TAXPAYER IDENTIFICATION NUMBER, BIRTH DATE, ASSETS, INCOME, AND INVESTMENT EXPERIENCE); AND (II) INFORMATION ABOUT A LIMITED PARTNER'S TRANSACTIONS WITH THE GENERAL PARTNER OR OTHERS (FOR EXAMPLE, ACCOUNT ACTIVITY AND BALANCES). THE GENERAL PARTNER DOES NOT DISCLOSE ANY PERSONAL INFORMATION IT COLLECTS, AS DESCRIBED ABOVE, ABOUT ITS NATURAL PERSON LIMITED PARTNERS OR FORMER LIMITED PARTNERS OTHER THAN IN CONNECTION WITH THE ADMINISTRATION, PROCESSING AND SERVICING OF LIMITED PARTNER ACCOUNTS AND THE FUND, INCLUDING TO ACCOUNTANTS, ATTORNEYS AND AUDITORS WHO ASSIST IN THOSE SERVICES, OR OTHERWISE AS PERMITTED BY LAW. THE GENERAL PARTNER RESTRICTS ACCESS TO PERSONAL INFORMATION IT COLLECTS ABOUT A NATURAL PERSON LIMITED PARTNER TO PERSONNEL WHO NEED TO KNOW THAT INFORMATION IN ORDER TO PROVIDE PRODUCTS OR SERVICES TO SUCH LIMITED PARTNER. THE GENERAL PARTNER MAINTAINS PHYSICAL, ELECTRONIC AND PROCEDURAL CONTROLS TO SAFEGUARD NATURAL PERSON LIMITED PARTNERS' NONPUBLIC PERSONAL INFORMATION. FOR THE AVOIDANCE OF DOUBT, THE FOREGOING PRIVACY POLICY SHALL NOT PREVENT THE FUND OR THE GENERAL PARTNER FROM DISCLOSING TO APPROPRIATE THIRD PARTIES SUCH INFORMATION AS THE GENERAL PARTNER MAY DEEM NECESSARY OR ADVISABLE IN ORDER TO COMPLY WITH APPLICABLE ANTI-MONEY LAUNDERING AND OTHER APPLICABLE UNITED STATES OR NON-UNITED STATES LAWS AND REGULATIONS.

# **CONTINENTAL PARTNERS, L.P.**

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### **Accompanying Documents**

Sixth Amended and Restated Limited Partnership Agreement  
Subscription Agreement  
Part II of SEC Form ADV of Continental Advisors LLC

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**227 West Monroe, Suite 5050**  
**Chicago, Illinois 60606**  
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## INTRODUCTION

Continental Partners, L.P. (the “**Fund**”) is an Illinois limited partnership that commenced operations in November 1999 with the objective of preserving and growing capital by investing primarily in equity, equity options and other financial instruments linked to equities. The Fund’s investment activities are directed by Continental Advisors LLC (the “**General Partner**”), a Delaware limited liability company and the Fund’s general partner. The principals of the General Partner responsible for the Fund are David P. Purcell and Paul M. Purcell. Limited Partnership Interests (“**Interests**”) in the Fund generally are offered as of the first Business Day of each month. The minimum initial investment amount in the Fund, which may be waived by the General Partner, is \$500,000.

## INVESTMENT OBJECTIVE AND POLICIES

### **Investment Objective**

The Fund’s investment objective is to preserve and grow capital.

### **Investment Strategy; Instruments and Markets Traded**

The General Partner attempts to combine the most attractive aspects of traditional hedged equity portfolios with modern risk management strategies and tools. The Fund’s success is driven by sound security selection and portfolio risk management, not short term directional bets on the market or timing. The General Partner employs a “bottom-up” or fundamental approach to security selection.

The Fund invests primarily in equity and other financial instruments, mainly in financial services companies. The Fund invests primarily in securities of U.S. companies, although it may invest in securities of foreign issuers. The Fund may also purchase or sell equity options, equity index options, equity index tracking baskets or funds (e.g., SPDRs), preferred stocks and debt securities convertible into equity. The Fund presently does not intend to invest in futures or commodities, and will not invest in futures or commodities until it obtains the necessary registrations or exemptions.

The General Partner attempts to establish long positions in great companies at fair valuations and to take short positions in average or poor companies at excessive valuations. The General Partner evaluates and risk manages all Fund positions in terms of their individual suitability as well as their suitability for the Fund’s portfolio as a whole. The General Partner uses a variety of derivative instruments and strategies to manage the Fund’s risk profile.

***Sector Focus.*** The General Partner invests primarily in those market sectors in which it believes it has a superior understanding of the risks and opportunities. The General Partner expects the Fund’s portfolio to be highly concentrated in the financial services sector, but there may be periods during which a significant portion of the portfolio is not invested in that sector.

***Security Selection.*** The General Partner believes that the equity security of each issuer will, over the long term, revert to the fair valuation of its proportional economic interest in the issuer. The General Partner relies on fundamental valuation measures driven in large part by projected cash flows in evaluating an issuer’s investment merit. The General Partner believes that in order to obtain a competitive advantage in security selection, it must limit the universe of possible investments to a subset of the overall market that the General Partner can devote its resources to understanding and correctly valuing.

**Long Positions.** The Fund generally holds a concentrated portfolio of long positions. In making investment decisions, the General Partner focuses on what it believes are its best ideas and invests with a high degree of conviction in the core long positions the Fund holds. The concentrated strategy of the Fund may lead to increased volatility and periods of significant deviation from standard performance benchmarks. The General Partner seeks to hold positions over a full investment cycle.

The General Partner believes excessive diversification dilutes an analyst's best ideas and that too many portfolio managers have turned their accounts into closet index funds (with higher costs) by diversifying into 100 or more securities, with the goal of minimizing the impact of any negative move in a single security against the total portfolio. Unfortunately, the impact of positive moves is also muted by too much diversification.

**Short Positions.** The General Partner believes that management of short positions requires a much different approach than management of long positions. The General Partner typically uses short positions in two ways. First, the General Partner may take short positions when the General Partner's analysis indicates that (i) an issuer's market valuation is in excess of its appropriate valuation, and (ii) the financial markets will recognize that over-valuation in the relative short to medium term. There are various reasons the markets typically recognize an equity's over-valuation, including an obvious new competitive threat to the issuer, adverse regulatory or legal action, earnings estimate revisions, management turmoil and change in institutional investor (Wall Street) psychology, etc., each of which cause the market to lower a security's valuation. Second, the General Partner may use short positions to hedge or reduce the Fund's net market exposure from its strategic long holdings. The General Partner may hedge a portion of the Fund's net long market exposure by shorting the broad equity market using such instruments as SPDRs, a specific sector by using such instruments as sector exchange-traded funds or stock baskets, or a specific equity by using such instruments as put options or short selling.

**Options.** The General Partner uses options to tailor the risk profile of the Fund's portfolio. The General Partner believes that many competing fundamental portfolio managers do not use options due to a lack of understanding, restrictive investment policies, or absence of risk control systems and methodologies. The General Partner believes it thoroughly understands equity options as a portfolio management tool and uses various commercially available risk control systems as well as proprietary systems to incorporate option strategies into its fundamental portfolio analysis for the Fund. However, options are only used as a "complement" or "enhancement" to core fundamental investment and risk management strategies. The General Partner generally does not engage in volatility or statistical arbitrage. The leveraged exposure from the Fund's option investments is incorporated into the Fund's overall risk management systems.

**Risk Control and Performance Attribution.** The General Partner believes risk management is a discipline, not a system. The General Partner relies on statistical analysis, quantitative models, and commercially available and proprietary systems to assist it in identifying, quantifying, and monitoring risk exposures. These systems are not, however, relied on to the exclusion of human judgment. The General Partner may monitor the Fund's portfolio risk exposure in various ways:

- Market Exposure—gross, net, leverage, sector and stock.
- Performance Attribution—the contribution to return of long and short security selection vs. industry or overall market factors.
- Portfolio Shocks—evaluation by scenario analysis of portfolio exposure to movements in stocks, sectors, interest rates, volatility and other key variables.



- Liquidity Risk—estimated market impact costs to adjusting or acquiring positions.
- Borrow Risk—supply and demand of stock to cover short positions.

***Borrowing of Cash and Securities and Certain Loans.*** The Fund is authorized to borrow for investment purposes or to fund withdrawal requests. Loans generally may be obtained from securities brokers and dealers or from other financial institutions. These loans will be secured by securities or other capital of the Fund pledged to the brokers or financial institutions.

The Fund engages in “short sales” as part of its investment strategy. Because short selling is the practice of selling securities that are borrowed from a third party, the Fund is required to return securities equivalent to those borrowed for the short sale at the lender’s demand. Pending the return of the securities, the Fund is required to deposit with the lender as collateral the proceeds of the short sale plus additional cash or securities. The amount of the required deposit is adjusted periodically to reflect any change in the market price of the securities that the Fund is required to return to the lender.

The Fund is required to pay brokerage commissions to execute short sales and may be required to pay a premium to the lender of the securities, which increases the cost of the securities sold. Until the borrowed securities are replaced, the Fund generally is required to pay to the lender amounts equal to any dividends or interest that accrue during the period of the loan on the securities borrowed. The Fund may generate interest income from the proceeds of short sales deposited with brokers as collateral.

***Cash Equivalents.*** The Fund may hold cash or make investments in cash equivalents, such as obligations of the U.S. Government, its agencies or instrumentalities, commercial paper, repurchase agreements, money market mutual funds, certificates of deposit and bankers’ acceptances issued by domestic branches of U.S. banks that are members of the Federal Deposit Insurance Corporation. Although such a scenario is unlikely, if the General Partner determines that current security valuations do not present suitable investment opportunities for the Fund, the Fund may during such periods be invested entirely in cash and cash equivalents.

***Master Fund.*** The General Partner may pursue the Fund’s investment objective by causing all or part of the Fund’s assets to be invested in a centralized investment vehicle commonly known as a “master fund” (with the Fund being a “feeder fund”). Such master fund would utilize the services of the General Partner, or an Affiliate of the General Partner, to invest and reinvest assets of the Fund, together with assets of other similar entities advised by the General Partner or an Affiliate, following the same investment strategy described herein. The combination of the Fund’s assets with assets from other feeder funds would have the beneficial effect of increasing the critical mass of assets otherwise available for trading, although as a “feeder fund” the Fund would be liable for its *pro rata* share of the operating expenses of the master fund. The master fund would elect to be treated as a partnership for U.S. federal income tax purposes.

***Special Risks of Use of Leverage, Investing in Inherently Leveraged Instruments, and Short Selling.*** The General Partner may cause the Fund to borrow to invest, to invest in options, which are inherently leveraged instruments, and to engage in short selling. Each of these investment activities presents special risks. The use of borrowing, or leverage, to invest may increase the losses as well as the gains experienced by the instruments in which the Fund is invested. The leverage inherent in option contracts causes the valuations of such contracts to be more volatile than the valuations of their underlying equities or indexes. Short selling is subject to theoretically unlimited losses. Additionally, although the General Partner may engage in various hedging strategies to limit the risks of such investments and its other investments on behalf of the Fund, there can be no assurance that such hedging

strategies will actually mitigate losses, and any gains will be at least partially offset by the cost of any hedging strategy.

*The General Partner's trading strategies are proprietary and confidential. The foregoing description of certain of the strategies that may be used by the General Partner to trade the Fund's assets is a summary only, and is not intended to be complete. Furthermore, there are no restrictions on the instruments in which the General Partner may invest, the markets and jurisdictions in which it may trade, or the particular strategies it may use. The General Partner is free to refine and modify its strategies, without prior notice to investors in the Fund ("Limited Partners").*

## **PERFORMANCE OF THE FUND**

The past performance returns for the Fund are attached hereto as Appendix I. The past performance of the other funds managed by the General Partner is available upon request. ***Past performance is not necessarily indicative of future results.***

## SUMMARY OF PRINCIPAL TERMS

*The following summary is qualified in its entirety by the provisions of the Sixth Amended and Restated Agreement of Limited Partnership (the “**Partnership Agreement**”) as well as any more detailed information included elsewhere in this Confidential Private Placement Memorandum (the “**Memorandum**”).*

*Capitalized terms used but not defined in this Memorandum have the meaning given to them in the Partnership Agreement.*

<b>The Fund</b>	Continental Partners, L.P. is an Illinois limited partnership that commenced operations in November 1999. The Fund is not registered as an investment company under the Investment Company Act of 1940, as amended (the “ <b>Company Act</b> ”), in reliance on Section 3(c)(1) of the Company Act.
<b>The General Partner</b>	Continental Advisors LLC, a Delaware limited liability company, formed in 1999 is the Fund’s general partner.
<b>Eligible Investors</b>	Each Limited Partner must be (i) an “accredited investor” as defined under Securities and Exchange Commission (“ <b>SEC</b> ”) Regulation D and (ii)(A) a “qualified client” as defined under the Investment Advisers Act of 1940, as amended, and the rules promulgated thereunder or (B) not a resident of the United States.
<b>Minimum Capital Contribution</b>	The minimum initial investment amount is \$500,000, and subsequent investments may be made in \$100,000 increments. The General Partner may determine to permit smaller investments.
<b>Timing of Capital Contributions</b>	Capital Contributions are accepted on the first Business Day of each month or such other days as determined by the General Partner.
<b>Withdrawals</b>	Limited Partners may make Capital Withdrawals on the last Business Day of each calendar quarter, upon 30 days prior written notice to the General Partner.
<b>Management Fee</b>	The Fund charges each Limited Partner’s Capital Account a management fee that is paid to the General Partner (“ <b>Management Fee</b> ”). The Management Fee is accrued as of the last day of each month at a rate equal to 0.08333% (1.0% per annum) of the Net Asset Value of such Limited Partner’s Capital Account on such date. The Management Fee is paid to the General Partner in arrears at the end of each calendar quarter. The Management Fee is prorated for Limited Partners based upon their actual period of ownership in the Fund during a particular calendar month.
<b>Incentive Allocation</b>	At the end of each Incentive Allocation Period, each Limited Partner’s Capital Account will allocate 20% of its net profits to the General Partner’s Capital Account when the Limited Partner’s Loss Recovery Account has a zero balance. Therefore, the Incentive Allocation is calculated on a high water mark basis.

<b>Fiscal Year</b>	The Fund's fiscal year is the calendar year.
<b>Reports</b>	Limited Partners receive monthly unaudited financial information, annual financial statements audited by an independent certified public accountant, and required tax information.
<b>Employee Benefit Plans</b>	Investment in the Fund is generally open to institutional investors, including Plans (as defined under " <b>Certain Employee Benefit Plan Considerations</b> ") that meet the Fund's suitability requirements, subject to certain restrictions. The Employee Retirement Income Security Act of 1974, as amended (" <b>ERISA</b> ") and Section 4975 of the Internal Revenue Code of 1986, as amended (the " <b>Code</b> ") and laws substantively similar or of similar effect to ERISA or Code Section 4975 raise a number of considerations for prospective Fund investors and the purchase of Interests by such investors should be evaluated by the Plan's independent investment adviser or legal counsel.
<b>Legal Counsel</b>	Winston & Strawn LLP (" <b>W&amp;S</b> ") served as U.S. legal and tax counsel to the General Partner in connection with the preparation of this Memorandum. W&S does not represent and has not represented the prospective investors or the Fund in the course of the offering of the Interests or in respect of the Fund's ongoing operations. Prospective investors must consult their own independent counsel with respect to the legal and tax implications of an investment in the Fund.
<b>Risk Factors</b>	See " <b>Certain Risk Factors</b> " and " <b>Potential Conflicts of Interest.</b> "

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**AN INVESTMENT IN THE FUND IS SUBJECT TO RISK OF LOSS.**

## MANAGEMENT OF THE FUND

### The General Partner and its Managing Partner

The General Partner is an SEC-registered investment adviser formed in 1999 as an asset management business.

**David P. Purcell.** Mr. Purcell is the managing member of the General Partner and a portfolio manager of the Fund and the other hedge funds managed by the General Partner. Prior to founding the General Partner in 1999, Mr. Purcell was a Managing Director of Warburg Dillon Read LLC (“WDR”), heading its U.S. Institutional Equity and Risk Management Product Distribution Group. Mr. Purcell was one of five members of WDR’s North American Board of Managers. During his tenure, WDR and/or its predecessor organizations (originally O’Connor and Associates) developed one of the market’s leading client equity risk management franchises, ranking first in Risk Magazine’s annual survey in 1995, 1996 and 1997 and ranking in the top 5 in Institutional Investors global investor survey in 1997 (#1), 1998 (#5) and 1999 (#4). In 1998, Mr. Purcell co-authored *The Reality of Hedge Funds*, a leading research piece on the secular growth and advantages of hedge fund management practices. Mr. Purcell received a B.B.A. in Finance from Texas Christian University and an M.B.A. in Finance from the University of Chicago.

**Paul M. Purcell.** Mr. Purcell is a member of the General Partner and a senior analyst for the Fund. Mr. Purcell has spent the past eight years as a research analyst focusing on financial processing, consulting and information technology companies. Until July of 1999, Mr. Purcell was Manager of Internet Marketing and Operations at the Chicago Board Options Exchange (“CBOE”), a department he helped found. Mr. Purcell also held analyst positions in the Trading Operations and Investor Services Divisions at CBOE. Mr. Purcell received his B.A. in Political Science from the University of San Diego. Paul Purcell is the brother of David Purcell.

The General Partner also serves as investment manager to Continental Healthcare Fund, L.P. which commenced operations in June 2001 and Continental Healthcare Fund (QP), L.P., which commenced operations in January 2003 (together the “**Continental Healthcare Funds**”), Continental Opportunities Fund LP, which commenced operations in November 2008, and Continental Offshore Fund, Ltd., which commenced operations in October 2000. Although these funds have different investment objectives and strategies than the Fund, there may be instances where an investment is suitable for the Fund and another fund managed by the General Partner. See “POTENTIAL CONFLICTS OF INTEREST.”

### Standard of Liability; Indemnification

Neither the General Partner nor any of its Affiliates shall be liable to any Limited Partner or the Fund for errors of judgment or for action or inaction, whether or not disclosed, which said party reasonably believed to be in the best interests of the Fund, or for losses due to such errors, action or inaction or to the gross negligence, dishonesty or bad faith of any employee, broker or other agent of the Fund, provided that such employee, broker or agent was selected, engaged or retained by the Fund with reasonable care. The General Partner and any Affiliate may consult with counsel and accountants in respect of Fund affairs and be fully protected and justified in any action or inaction that is taken in accordance with the advice or opinion of such counsel or accountants, provided that they shall have been selected with reasonable care. Notwithstanding the foregoing, this exculpation shall not be construed so as to relieve (or attempt to relieve) the General Partner or any Affiliate of any liability to the extent (but only to the extent) that such liability may not be waived, modified or limited under applicable law, but shall be construed so as to effectuate the provisions of this exculpation to the fullest extent permitted by

law. Notwithstanding the foregoing, no person will be exculpated or exonerated from liability, or indemnified against loss, for violations of federal or state securities laws or for any other intentional or criminal wrongdoing.

To the fullest extent permitted by law, the Fund shall indemnify and hold harmless the General Partner and its Affiliates, and/or the legal representatives of any of them (an “**Indemnified Party**”), from and against (i) any loss or expense suffered or sustained by any or all of them by reason of the fact that they are or were an Indemnified Party, including, without limitation, any judgment, settlement, reasonable attorneys’ fees and other costs or expenses incurred in connection with the defense of any actual or threatened action or proceeding, provided that such loss or expense resulted from a mistake of judgment on the part of an Indemnified Party, or from action or inaction, whether or not disclosed, which said Indemnified Party reasonably believed to be in the best interests of the Fund, provided that such mistake of judgment, action or inaction does not constitute willful misconduct, fraud or bad faith, and (ii) any loss due to the negligence, dishonesty or bad faith of any employee, broker or other agent of any Indemnified Party provided that such employee, broker or agent was selected, engaged or retained by the Indemnified Party with reasonable care. The Fund shall, in the sole discretion of the General Partner, advance to an Indemnified Party reasonable attorneys’ fees and other costs and expenses incurred in connection with the defense of any action or proceeding that arises out of such conduct, but no person will be indemnified against loss for violation of federal or state securities laws, or for any other intentional or criminal wrongdoing (or such other lesser standard as required by law which would prevent indemnification). Each Indemnified Party shall agree that, in the event it receives any such advance, such Indemnified Party shall promptly reimburse the Fund for such fees, costs and expenses to the extent that it shall be determined that it was not entitled to indemnification. Absent such a prompt reimbursement, any Capital Account of such Indemnified Party shall be reduced, but not below zero, to the extent of the reimbursable amount.

### **Intellectual Property Rights**

All right, title, and interest in or to all intellectual property used in connection with the operation of the Fund is held exclusively by the General Partner or its designee(s). No intellectual property shall be or become the property of the Fund or any Limited Partner, and none of the Fund or any Limited Partner shall have any right, title or interest therein or thereto.

### **Amendments to the Partnership Agreement**

The General Partner may, without prior notice or consent of any Limited Partner, amend any provision of the Partnership Agreement if it reasonably believes such amendment will not have a material adverse effect upon the Limited Partners or for such other reasons as set forth in the Partnership Agreement. In addition, other amendments can be made by the General Partner with the written consent of Limited Partners having in excess of 50% of the Partnership Percentages of the Limited Partners, except as set forth in the Partnership Agreement.

### **Termination of the Fund; Dissolution and Liquidation**

Under the Partnership Agreement, the General Partner may at any time in its sole and absolute discretion terminate the Fund and cause it to wind up its affairs. The Fund also may be terminated upon certain events relating to the General Partner described in the Partnership Agreement and in accordance with applicable law. Upon the winding up of the Fund, a final audit of the Fund will be completed and its assets will be liquidated. The proceeds of such liquidation (less all Fund debts and liabilities) will be distributed to the Limited Partners then invested in the Fund in proportion to their Capital Account balances.

### **Custody of Assets**

The General Partner is deemed to have custody of the Fund's assets by virtue of the fact that it is the general partner and investment manager of the Fund. The Fund will maintain its assets with one or more prime brokers and/or other financial institutions selected by the General Partner. No cash, securities or other investment instruments of the Fund will be held by the General Partner or its affiliates.

### **Brokerage Arrangements and Soft Dollars**

In many instances, the purchase or sale of securities for the Fund will be effected simultaneously with the purchase or sale of like securities for other accounts. Such transactions may be made at slightly different prices, due to the volume of securities purchased or sold.

In selecting brokers and dealers to execute transactions, the General Partner need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. The General Partner may or may not negotiate "execution only" commission rates; thus, the Fund may be deemed to be paying for other services provided by the broker or dealer, which are included in the commission rate. In negotiating commission rates, the General Partner may take into account the financial stability and reputation of the broker or dealer and the brokerage, research and other services provided by such broker or dealer pursuant to a soft dollar arrangement, even though the Fund may not, in any particular instance, be the direct or indirect beneficiary of the research or other services provided. Such products and services may include, but are not limited to, research, including research conducted by independent research firms and paid for by the Fund's clearing broker at the direction of the General Partner. The General Partner will accept soft dollar products and services only when it believes such products and services are within the safe harbor under Section 28(e) of the Securities Exchange Act of 1934, as amended.

### **Selling Agents**

The Fund may engage various selling agents to distribute the Interests. The General Partner may also pay fees to or agree to share its Management Fee or Incentive Allocation with certain selling agents.

## **FEES AND EXPENSES**

### **Ongoing Operating Expenses of the Fund**

The Fund pays its ongoing operating and offering expenses, including, but not limited to: insurance and custody costs and expenses; accounting, audit, tax preparation, and legal fees; fees of any administrator or valuation agent that may be retained; software and other technology-related expenses; expenses related to the ongoing offering of the Interests, including printing and mailing costs; regulatory and governmental filing fees; and tax, litigation, and extraordinary expenses (if any). The General Partner (and any other such affiliate retained by the General Partner) shall be reimbursed for all reasonable out-of-pocket expenses incurred on behalf of the Fund. The General Partner pays its own overhead costs such as rent, equipment, salaries, bonuses and clerical personnel.

### **Transaction Expenses**

The Fund pays its transaction expenses, including brokerage commissions, bid-ask spreads, dealer mark-ups, interest expenses, and all other expenses related to the Fund's investment activities.

### **Management Fee**

The Fund charges each Limited Partner's Capital Account a management fee that is paid to the General Partner ("**Management Fee**"). The Management Fee is accrued as of the last day of each month at a rate equal to 0.08333% (1.0% per annum) of the Net Asset Value of such Limited Partner's Capital Account on such date. The Management Fee is paid to the General Partner in arrears at the end of each calendar quarter. The Management Fee is prorated for Limited Partners based upon their actual period of ownership in the Fund during a particular calendar month.

The General Partner may, in its sole discretion, waive all or part of the Management Fee otherwise due with respect to any Limited Partner's investment by rebate or otherwise, without entitling any other Limited Partner to any such waiver. The General Partner and its Affiliates and/or employees will not be subject to the Management Fee with respect to investments made by them in the Fund.

### **Incentive Allocation**

Although not literally a fee or expense of the Fund, Limited Partner's Capital Accounts are potentially subject to reduction in the amount of the Incentive Allocation, which is equal to 20% of the aggregate Net Capital Appreciation credited to the Capital Account of each Limited Partner during any Incentive Allocation Period. See "Allocation of Profits and Losses; Incentive Allocation," to follow.

The General Partner may, in its sole discretion, waive all or part of the Incentive Allocation otherwise due with respect to any Partner's investment, by rebate or otherwise, without entitling any other Limited Partner to any such waiver. Investments of the General Partner, its Affiliates and/or their employees will not be subject to the Incentive Allocation.

## **ALLOCATION OF PROFITS AND LOSSES; INCENTIVE ALLOCATION**

### **General**

A Capital Account is established on the books of the Fund for each Partner (including the General Partner). The Capital Account of each Partner will initially equal such Partner's initial Capital Contribution, adjusted as provided below. At the beginning of each Accounting Period, the Capital Account of each Partner will be increased by the amount of any additional Capital Contribution made by such Partner as of the beginning of such Accounting Period. At the end of each Accounting Period, the Capital Account of each Partner shall be (i) increased or decreased by the Partner's *pro rata* share of the Fund's Net Capital Appreciation or Net Capital Depreciation for such Accounting Period; and (ii) decreased by the amount of any withdrawals or transfers made by, or distributions made to, such Partner as of the end of such Accounting Period. As of the end of each Incentive Allocation Period, the Capital Account of each Partner also shall be adjusted downward to reflect any Incentive Allocation to be made to the General Partner.

"Net Capital Appreciation" means, with respect to any Accounting Period, the excess, if any, of the Fund's capital at the end of an Accounting Period (the "**Ending Value**") adjusted for deductions for all expenses, including the Management Fee, over the Fund's capital at the beginning of such Accounting



Period (the “**Beginning Value**”). “Net Capital Depreciation” means, with respect to any Accounting Period, the excess, if any, of the Beginning Value over the Ending Value.

The Fund may invest in “**New Issues**” - that is initial public offerings of equity securities, in accordance with Financial Industry Regulatory Authority, Inc. (“**FINRA**”) Rule 5130 or any successor provision thereto (“**Rule 5130**”). Under Rule 5130, brokers may not sell such securities to a private investment fund if the fund allocates profits and losses from such securities to investors who are “Restricted Persons,” which includes persons employed by or affiliated with a broker and portfolio managers of hedge funds and other registered and unregistered investment advisory firms. The profits and losses with respect to “New Issues” generally will be allocated to investors in the Fund that are not “Restricted Persons.” The Fund may, however, avail itself of a “10% de minimis” exemption pursuant to which a portion of any “New Issue” profits and losses may be allocated to “Restricted Persons.” The Partnership Agreement provides that the General Partner is authorized to determine, among other things: (i) the manner in which “New Issues” are purchased, held, transferred and sold by the Fund and any adjustments with respect thereto (including interest); (ii) the Partners who are eligible and ineligible to participate in “New Issues”; (iii) the method by which profits and losses from “New Issues” are to be allocated among Partners in a manner that is permitted under Rule 5130, including whether the Fund will avail itself of the “10% de minimis” exemption or any other exemption; and (iv) the time at which “New Issues” are no longer considered as such under Rule 5130. The Fund shall not compensate Partners not permitted to participate in whole or in part in “New Issues” under Rule 5130 for the Fund’s use of an allocable portion of their capital to acquire “New Issues” in which such Partners may not participate.

### **Incentive Allocation**

Except as set forth below, at the end of each Incentive Allocation Period, 20% of the aggregate Net Capital Appreciation credited to the Capital Account of each Limited Partner during such Incentive Allocation Period will be reallocated to the Capital Account of the General Partner (the “**Incentive Allocation**”). With respect to a Limited Partner, an “**Incentive Allocation Period**” is the period commencing on the date of the admission of such Limited Partner, and, thereafter, immediately following the close of the preceding Incentive Allocation Period, and ending on each fiscal year end, the date of a capital withdrawal, the date of a transfer by a Limited Partner of its Interest in the Fund, the effective date of the General Partner’s ceasing to be the Fund’s general partner, and the date the Fund is dissolved.

Each Limited Partner has a memorandum account on the books of the Fund for accounting purposes (“**Loss Recovery Account**”), the opening balance of which is zero. At the end of each Incentive Allocation Period, the balance in each Limited Partner’s Loss Recovery Account is adjusted as follows: (i) if there has been, in the aggregate, Net Capital Depreciation with respect to such Limited Partner during such Period, an amount equal to such Net Capital Depreciation is charged to such Limited Partner’s Loss Recovery Account; or (ii) if there has been, in the aggregate, Net Capital Appreciation with respect to such Limited Partner during such Period, an amount equal to such aggregate Net Capital Appreciation, before any Incentive Allocation to the General Partner, shall be credited to and reduce any unrecovered balance in such Limited Partner’s Loss Recovery Account, but not beyond zero. With respect to a given Incentive Allocation Period, the Net Capital Appreciation upon which the calculation of the Incentive Allocation is based is deemed reduced by the unrecovered balance, if any, in a Limited Partner’s Loss Recovery Account as of the beginning of such Period.

In the event a Limited Partner with an unrecovered balance in its Loss Recovery Account withdraws all or a portion of its Capital Account, the unrecovered balance in such Limited Partner’s Loss Recovery Account shall be reduced by an amount equal to the product obtained by multiplying the balance in such Loss Recovery Account by a fraction, the numerator of which is the amount of the withdrawal made by such Limited Partner and the denominator of which is the balance in such Limited

Partner's Capital Account (prior to the withdrawal made by the Limited Partner). Additional Capital Contributions shall not affect the balance of a Loss Recovery Account.

The General Partner may, in its sole discretion, waive all or part of the Incentive Allocation otherwise due with respect to any Partner's investment, by rebate or otherwise, without entitling any other Limited Partner to any such waiver. Investments of the General Partner, its Affiliates and/or their employees will not be subject to the Incentive Allocation.

## VALUATION OF FUND INVESTMENTS

The Fund's "**Net Asset Value**" is calculated by the General Partner or its designee as of the last Business Day of each calendar month and at such other times as the General Partner may determine (each such day, a "**Valuation Date**"). In determining the Net Asset Value of the Fund, the Fund's positions will be valued as follows:

(a) Securities, other than options, that are listed or admitted to trading on a national securities exchange shall be valued at the last sale price on the date of determination, or if no such sale occurred on the date of determination, at the closing "bid" price on the date of determination. In the case of securities traded on more than one national securities exchange, such securities shall be valued as noted in the foregoing sentence with reference to the national securities exchange that the General Partner deems appropriate.

(b) Securities other than options that are traded in the over-the-counter market shall be valued at the "last trade" price as reported by the quotation system of such market as of the date of determination or, if no such "last trade" price is reported for the date of determination, at the mean between the current "bid" and "asked" prices at the close of business on the date of determination as reported by such quotation system. If neither such "last trade" price nor such "bid" and "asked" prices are reported by such quotation system for the date of determination, such over-the-counter securities shall be valued at the price that the General Partner considers to be such securities' fair market value, after consulting with the custodian of such securities.

(c) The fair market value of securities sold short by the Fund shall be calculated in the manner provided in paragraph (a) above for securities listed or admitted to trading on a national securities exchange and in the manner provided in paragraph (b) above for securities traded in the over-the-counter market. The fair market value of securities held short by the Fund shall be treated as a liability of the Fund.

(d) Options listed on a national securities exchange shall be valued at the last sale price on the date of determination, or if no such sale occurred on the date of determination, at the average between the current "bid" and "asked" prices at the close of business on the date of determination as reported on the exchange. In the case of options traded on more than one national securities exchange, such options shall be valued as noted in the foregoing sentence with reference to the national securities exchange that the General Partner deems appropriate.

(e) The value of any illiquid securities held by the Fund shall be valued in a manner determined by the General Partner utilizing the best information available to it.

(f) For over-the-counter derivative products, the General Partner will obtain a valuation from each counterparty providing such product or, where appropriate, with quotes from at least 2 dealers and the General Partner will use the average of such quotes for valuing such investments.

(g) All other assets and liabilities of the Fund shall be assigned such value as the General Partner may reasonably determine.

(h) If the General Partner determines that the valuation of any securities or other property does not fairly represent market value, the General Partner shall value such securities or other property as it shall reasonably determine and shall set forth the basis of such valuation in writing in the Fund's records.

(i) All values assigned to securities and other assets and liabilities pursuant to the foregoing shall be final and conclusive as to all of the Limited Partners.

The General Partner has authority to establish whatever reserves the General Partner deems necessary or advisable in order to cover estimated accrued expenses, liabilities or contingencies, including general reserves for unspecified contingencies. Any such reserves reduce Net Asset Value when established and are generally credited to Net Asset Value when reversed, not retroactively to the prior period when the reserve was established. Reductions in Net Asset Value caused by the setting aside of reserves will reduce withdrawal proceeds paid to withdrawing Limited Partners.

## **CAPITAL WITHDRAWALS; TRANSFERS AND DISTRIBUTIONS**

### **Liquidity; Payment of Withdrawal Proceeds; Suspensions**

Limited Partners may upon 30 days prior written notice to the General Partner withdraw part or all of the capital from their Capital Accounts as of the last Business Day of each calendar quarter (a "Withdrawal Date").

Payment of any amount withdrawn generally will be made within 30 days of the Withdrawal Date unless all or substantially all of a Limited Partner's capital is withdrawn, in which case at least 95% of the withdrawal amount generally will be paid within that time period with the balance (which shall not bear interest) paid generally within 30 days after the Fund's year end audit. Withdrawal proceeds may be paid in cash or in kind at the discretion of the General Partner.

The General Partner reserves the right to temporarily suspend or limit withdrawals by Limited Partners if it determines, in its sole discretion, that such withdrawals would negatively affect the Fund or non-withdrawing Limited Partners.

### **Mandatory Withdrawals**

The General Partner may in its sole discretion and without prior notice require any Limited Partner to withdraw a portion of its Capital Account or to withdraw entirely from the Fund.

### **Waiver of Liquidity Provisions**

The General Partner may permit any Limited Partner to make a capital withdrawal on a date other than a Withdrawal Date and on less than 30 days prior notice, without entitling any other Limited Partner to any such additional withdrawal date or shorter notice period.

## **Transfers and Distributions**

The Interests are transferable only with the prior written consent of the General Partner. The General Partner does not currently contemplate that the Fund will make distributions to Limited Partners.

## **CERTAIN RISK FACTORS**

*An investment in the Fund involves a high degree of risk and is suitable only for persons who are able to assume the risk of losing their entire investment. Prospective investors are expected to be aware of the substantial risks of investing in the Fund, and any person considering an investment in the Fund must have the financial sophistication and expertise to evaluate the risks and merits of doing so. Among the risks prospective investors should be aware of when considering whether to invest in the Fund are the following, which are not a complete list of the risks of investing in the Fund.*

### **General Investment Risks**

***Risk of Loss.*** Limited Partners could lose all or substantially all of their investment in the Fund. Past performance is not necessarily indicative of future results.

***Volatility.*** The Fund could incur major losses over a short period of time.

***Portfolio Illiquidity.*** The instruments in which the Fund invests could become illiquid for sustained periods of time, adversely affecting the Fund.

***Trading Suspensions.*** Various regulatory bodies have authority to intervene in the securities markets, through the imposition of trading suspensions or otherwise. Such regulatory actions could adversely affect the Fund.

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

***Counterparties and Brokers.*** The financial institutions and counterparties, including banks and brokerage firms, through or with which the Fund trades or invests may encounter financial difficulties and default on their respective obligations to the Fund. Any such default could result in material losses to the Fund.

***Custody Risk.*** No cash, securities or other investment instruments of the Fund will be held by the General Partner or its affiliates. Rather, the Fund will maintain substantially all of its assets with one or more prime brokers and other financial institutions selected by the General Partner. The prime brokers or other financial institutions selected to maintain the Fund's assets may become insolvent, causing the Fund to lose all or a portion of its assets held by those brokers.

***Competition.*** The Fund competes with numerous other private investment funds and financial institutions, as well as other investors, many of which have resources substantially greater than the Fund's.

***Changing Market Conditions.*** Particularly in light of the concentration of the Fund's strategy, certain changes in general market conditions could materially reduce the Fund's profit potential.

## **Market Risks**

***Market Risks In General.*** The General Partner's strategies are subject to some dimension of market risk: directional price movements, deviations from historical pricing relationships, changes in the regulatory environment, changes in market volatility, "flights to quality," "credit squeezes," etc. The General Partner's strategies may be no less speculative than traditional investing strategies.

The diversification of the Fund's positions and strategies will be limited (even within the limited focus of such strategies) and may not provide meaningful risk control.

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

***Volatility.*** The prices of the instruments traded by the Fund have been subject to periods of excessive volatility in the past, and such periods can be expected to recur. Price movements are influenced by many unpredictable factors, such as market sentiment, inflation rates, interest rate movements and general economic and political conditions. While volatility can create profit opportunities for the Fund, it can also create unusual risks, especially given the concentrated nature of the Fund's portfolio.

***Lack of Liquidity.*** The market for some of the instruments traded by the Fund from time to time may have limited liquidity. Lack of liquidity can make it economically unfeasible for the Fund to recognize profits on open positions or to close out open positions against which the market is moving. In addition, illiquidity can disrupt the historical price relationships on which certain of the General Partner's strategies are based, as the fewer transactions that take place, the greater the risk of market values not reflecting true pricing relationships or fair value.

***Market Disruptions.*** The Fund may incur major losses in the event of disrupted markets and other extraordinary events in which historical pricing relationships (on which the General Partner bases a number of its trading positions) become materially distorted. The risk of loss from pricing distortions is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving.

Market disruptions caused by unexpected political, military and terrorist events may from time to time cause dramatic losses for the Fund, and such events can result in otherwise historically low risk strategies performing with unprecedented volatility and risk.

## **Strategy Risks**

***No Material Restrictions.*** Within the general limitations of focusing on equity and equity-like instruments of issuers in the financial services industry, there are no material restrictions on the instruments, markets or countries in which the Fund may invest or on the investment strategies that may be employed by the General Partner on behalf of the Fund.

***Directional Trading.*** Many of the positions taken by the Fund are designed to profit from forecasting absolute price movements. Predicting future prices is inherently uncertain and the losses incurred, if the market moves against a position, will often not be hedged. The speculative aspect of

attempting to predict absolute price movements is generally perceived to exceed that involved in attempting to predict relative price fluctuations.

***Importance of Market Judgment.*** Although the General Partner uses quantitative valuation models for risk management purposes, the General Partner's quantitative risk management strategies are by no means wholly systematic; the market judgment and discretion of the General Partner's personnel are fundamental to the implementation of these strategies.

***Duration of Investment Positions.*** Although the General Partner seeks to hold the Fund's long positions over a full investment cycle, the maximum duration of any particular position at the time of initiation may not be known by the General Partner. The length of time for which a position is maintained varies significantly, based on the General Partner's subjective judgment of the appropriate point at which to liquidate a position so as to take gains or losses.

***Illiquid Positions.*** A certain number of the Fund's positions could not only be difficult to liquidate but also to value. The General Partner's valuation of these positions may prove to be materially inaccurate and to have resulted in inflated Management Fees and Incentive Allocations paid or made to the General Partner and capital withdrawal proceeds paid out to withdrawing Limited Partners.

***Securities Lending.*** The Fund borrows and lends securities in the ordinary course of its business. Third parties that borrow securities from the Fund may not be able to return these securities on demand (possibly causing the Fund to default on its obligations to other parties) and may also default on the payment obligations owed to the Fund in connection with such securities loans, potentially resulting in substantial losses to the Fund.

***Financing Arrangements; Availability of Credit.*** The General Partner may at times have the Fund take leveraged positions, although the Fund's maximum leverage ratio (measured at the time of borrowing or investment) generally will not exceed 1.5 to 1. There can be no assurance that the Fund will be able to maintain adequate financing arrangements. As a general matter, the banks, brokers and dealers that provide financing to the Fund can apply essentially discretionary margin, haircut, financing, security and collateral valuation policies. Changes by banks, brokers and dealers in such policies, or the imposition of other credit limitations or restrictions, whether due to market circumstances or governmental, regulatory or judicial action, may result in margin calls, loss of financing, forced liquidation of positions at disadvantageous prices, termination of swap and repurchase agreements and cross-defaults to agreements with other lenders. Any such adverse effects may be exacerbated in the event that such limitations or restrictions are imposed suddenly and/or by multiple lenders at or about the same time. The imposition of such limitations or restrictions could compel the Fund to liquidate all or part of its portfolio at disadvantageous prices.

***Reliance on Corporate Management and Financial Reporting.*** Certain issuers in the marketplace have recently been subject to criticism and allegations of impropriety in connection with their corporate governance and accounting. In trading instruments of such issuers, the Fund will rely on the financial information circulated by such corporations. Recent events have demonstrated the material losses which investors can incur as a result of corporate mismanagement, fraud and accounting irregularities.

***Short Sales.*** As an integral part of the General Partner's trading strategies, it routinely sells securities "short." A short sale is effected by selling a security which the Fund does not own, or selling a security which the Fund owns but which it does not deliver upon consummation of the sale. In order to make delivery to the buyer of a security sold short, the Fund must borrow the security. In so doing, it incurs the obligation to replace that security, whatever its price may be, at the time it is required to deliver

it to the lender. The Fund must also pay to the lender of the security any interest payable on the security during the borrowing period and may have to pay a premium to borrow the security. This obligation must, unless the Fund then owns or has the right to obtain, without payment, securities identical to those sold short, be collateralized by a deposit of cash or marketable securities with the lender. Short selling is subject to a theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. There can be no assurance that the securities necessary to cover the short position will be available for purchase by the Fund. In addition, purchasing securities to close out the short position can itself cause the price of the relevant securities to rise further, thereby increasing the loss incurred by the Fund. Furthermore, the Fund may prematurely be forced to close out a short position if a counterparty from which the Fund borrowed securities demands their return, resulting in a loss on what might otherwise have been a profitable position.

***Hedging.*** The General Partner will not, in general, attempt to hedge all market or other risks inherent in the Fund's positions, and will hedge certain risks, if at all, only partially. Specifically, the General Partner may choose not, or may determine that it is economically unattractive, to hedge certain risks — either in respect of particular positions or in respect of the Fund's overall portfolio. The Fund's portfolio composition will commonly result in various directional market risks remaining unhedged.

The General Partner will, at times, enter into hedging transactions with the intention of reducing or controlling risk. Even if the General Partner is successful in the efforts, the hedging will reduce the Fund's returns. Furthermore, it is possible that hedging strategies will not be effective in controlling risk, due to unexpected non-correlation (or even positive correlation) between the hedging instrument and the position being hedged, increasing rather than reducing both risk and losses.

To the extent that the General Partner hedges, its hedges generally will not be static but rather will need to be continually adjusted based on the General Partner's assessment of market conditions, as well as the expected degree of non-correlation between the hedges and the portfolio being hedged. The success of the General Partner's hedging strategy will depend on the General Partner's ability to implement this dynamic hedging approach efficiently and cost effectively, as well as on the accuracy of the General Partner's ongoing judgments concerning the hedging positions to be acquired by the Fund.

***Leverage.*** The Fund at times trades and invests with leverage, although such leverage (measured at the time of borrowing or investment) generally will not exceed 1.5 to 1. Leverage will be obtained through borrowings and through the significant degree of leverage typically embedded in the derivative instruments in the Fund's portfolio. Losses incurred on the Fund's leveraged investments increase in direct proportion to the degree of leverage employed. The Fund also incurs interest expense on the borrowings used to leverage its positions.

To the extent the assets of the Fund have been leveraged through the borrowing of money, the purchase of securities on margin or otherwise, the interest expense and other costs and premiums incurred in relation thereto may not be recovered. If gains earned by the Fund's portfolio fail to cover such costs, the Net Asset Value of the Fund will decrease faster than if there had been no borrowings.

***No Formal Diversification Policies.*** The General Partner is not restricted as to the percentage of the Fund's assets that may be invested in any particular issuer, instrument, market or strategy. The Fund does not and will not maintain any fixed requirements for diversifying its portfolio among issuers, instruments, markets or strategies. On the contrary, in attempting to maximize the Fund's returns, the General Partner may concentrate the holdings of the Fund in those instruments or markets that, in the sole judgment of the General Partner, provide the best profit opportunities consistent with the Fund's investment objectives, and the Fund's assets may be concentrated in a very small number of positions. A loss in any such concentrated position could ultimately result in significant losses to the Fund and a

proportionately higher reduction in the Net Asset Value of the Fund than if its capital had been spread over a wide number of positions.

***Concentrated Strategy.*** The Fund will not be broadly diversified, but rather will concentrate on equities and equity-like instruments in the financial services industry and will hold a relatively limited number of positions.

***Evolving and New Investment Strategies.*** The General Partner's strategies and trading techniques are continually evolving. The General Partner is not restricted from using the Fund's capital for purposes of developing and incubating new strategies, even if the General Partner has limited experience in the type of strategy or in the markets or instruments involved. The strategies developed by the General Partner may not be successful and the resources devoted to the implementation of new strategies may diminish the effectiveness of the General Partner's implementation of the General Partner's established strategies.

### **Investment Instrument Risks**

***Equities.*** Equities invested in by the Fund may involve substantial risks and may be subject to wide and sudden fluctuations in market value. These risks and fluctuations may result from changing economic, stock market, industry and company conditions, currency exchange rates and the risks inherent in the ability of management to achieve profitability or generate internally or obtain externally, the funds necessary for growth. Companies with new products or services could sustain significant losses if projected markets do not materialize. There are no absolute restrictions in regard to the size or operating experience of the companies in which the Fund may invest. Smaller companies may lack sufficient management depth to grow their businesses or anticipate changes that could adversely affect their strategies. In addition, the Fund's common stock investments are typically subordinated to the interests of other senior shareholders, such as preferred shareholders, as well as to the interests of general creditors of the issuer.

***Options Trading.*** When purchasing or selling an option, the risks associated with the transaction vary depending on the type of option (i.e., put or call). When purchasing an option, it is necessary to calculate the extent to which the value of the underlying must increase (in the case of a call) or decrease (in the case of a put) in order for the Fund's position to become profitable, taking into account the premium and all transaction costs. If the purchased options expire worthless, the Fund will suffer a total loss of the amount invested in the option that will consist of the option premium plus transaction costs.

Selling an option generally entails considerably greater risk than purchasing an option. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of that amount. The seller will be liable for additional margin to maintain the position if the market moves unfavorably. The seller will also be exposed to the risk of the purchaser exercising the option, and, upon such exercise, the seller will be obligated to either settle the option in cash or to acquire or deliver the underlying interest, depending on the terms of the option. If the option is "covered" by the seller holding a corresponding position in the underlying interest or a future or another option, the risk may be reduced. If the option is not covered, the risk of loss can be unlimited.

***Foreign Investments.*** The Fund may invest a portion of its capital in foreign markets, generally in instruments denominated in currencies other than the U.S. dollar. The Fund is subject to exchange-rate risk in such transactions. Furthermore, the regulatory regimes and risks of investing in foreign jurisdictions are typically materially different than those applicable to investing in the United States, as are the disclosures and accounting standards. The values of investments in foreign jurisdictions may be subject to abrupt and unexpected change as a result of political and economic programs and policies.



Foreign government authorities may directly intervene in their markets, including in respect of the terms of specific securities or obligations, in a manner materially detrimental to the Fund.

**Derivatives.** In addition to options, the Fund may use other derivative instruments, including, without limitation, warrants and swaps, and may use derivative techniques for hedging and for other trading purposes. The use of derivative instruments involves a variety of material risks, including the extremely high degree of leverage often embedded in such instruments and the possibility of counterparty non-performance as well as of material and prolonged deviations between the actual and the theoretical value of a derivative (i.e., due to nonconformance to anticipated or historical correlation patterns). In addition, the markets for certain derivatives are frequently characterized by limited liquidity, which can make it difficult as well as costly to the Fund to close out positions in order either to realize gains or to limit losses.

Certain of the derivatives traded by the Fund may be principal-to-principal or “over-the-counter” contracts between the Fund and third parties entered into privately, rather than on an exchange. With respect to such derivatives, the Fund will not be afforded the regulatory and financial protections of an exchange or its clearinghouse (or of the government regulator that oversees such exchange and clearinghouse). In privately negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices.

Many derivatives are valued on the basis of dealers’ pricing of these instruments. However, the price at which dealers value a particular derivative and the price which the same dealers would actually be willing to pay for such derivative should the Fund wish or be forced to sell such position may be materially different. Such differences can result in an overstatement of the Net Asset Value of the Fund and may materially adversely affect the Fund in situations in which the Fund is required to sell derivative instruments.

The Fund’s use of derivatives and other techniques (such as short sales) for hedging purposes involves certain additional risks, including: (a) imperfect correlation between movements in the asset on which the derivative is based and movements in the asset being hedged; and (b) possible impediments to effective portfolio management or the ability to meet short term obligations because of the percentage of the Fund’s assets segregated to secure its obligations under derivatives contracts. By hedging a particular position, the Fund limits the potential gain from an increase in value of such position, but may not achieve a commensurate increase in risk control.

**Illiquid Investments.** The Fund may invest in securities acquired in a privately negotiated transaction directly from the issuer or a holder of the issuer’s securities and which, therefore, could not ordinarily be sold by the Fund except in another private placement or pursuant to an effective registration statement under the Securities Act of 1933 or an available exemption from such registration requirements. There may be no trading market for these securities, and the Fund might only be able to liquidate these positions, if at all, at disadvantageous prices. As a result, the Fund may be required to hold such securities despite adverse price movements. In addition, if the Fund makes a short sale of an illiquid security, it may have difficulty in covering the short sale, resulting in a potentially unlimited loss on that position.

The General Partner values the illiquid securities in the Fund’s portfolio in its good faith discretion. Although there can be no assurance that these valuations will accurately predict the price at which an arm’s-length buyer would be willing to purchase the securities, these valuations are part of the calculation of the Fund’s Net Asset Value.

## **Structural Risks**

***Importance of the General Partner.*** The Fund is dependent on the ability of the General Partner to manage the Fund's investments. The General Partner, in turn, is dependent on the services of Mr. David P. Purcell and Paul M. Purcell. Losing their services could impair the ability of the General Partner to provide services to the Fund, could be material and adverse to the Fund, and could require the General Partner to wind up the Fund.

***Receipt of Confidential Information.*** General Partner personnel may from time to time receive confidential information regarding a security held by the Fund or sought to be purchased by the Fund, thereby preventing the General Partner from acquiring or liquidating trading positions in the manner that the General Partner would otherwise consider to be in the Fund's best interest.

***Restrictions on Withdrawals.*** Capital withdrawals may be made only as of each calendar quarter-end and the Interests are not freely transferable. Irrespective of the success or failure of the General Partner's strategies, Limited Partners' inability to make a capital withdrawal on short notice and more frequently than quarterly materially increases the risk of an investment in an Interest because it is not possible to make capital withdrawals in order to recognize profits or mitigate losses. Under certain circumstances, the Fund may suspend Limited Partners' ability to make capital withdrawals, leaving them fully exposed to the risk of the Fund's performance for an indefinite period of time.

***Incentive Allocation.*** The fact that the General Partner is eligible to receive performance-based compensation in the form of the 20% Incentive Allocation may create an incentive for the General Partner to make investments on behalf of the Fund that are riskier or more speculative than would otherwise be the case. Incentive Allocations are calculated on a basis which includes the realized and unrealized gains and losses of the Fund. Consequently, an Incentive Allocation could be made to the General Partner in respect of unrealized gains of the Fund that may never be realized.

If the Fund suffers substantial losses such that it would be unlikely that the General Partner would receive an Incentive Allocation for an extended period of time, the General Partner would have less of an incentive to devote significant resources to managing the Fund's investing, and could cause the General Partner to wind up the Fund, foreclosing investors from recouping any losses.

***Substantial Expenses.*** The Fund pays a 1.0% annual Management Fee (on a quarterly basis), and all expenses associated with its investing. Additionally, any profits allocable to a Limited Partner's Capital Account will be reduced by the 20% Incentive Allocation that is re-allocated to the General Partner's Capital Account.

***Valuation Risk.*** The General Partner values the Fund's positions. Such valuations directly effect the size of the Management Fee and Incentive Allocation received by the General Partner. The General Partner generally will value the Fund's positions based on quotes provided by brokers and other third-party pricing sources. The General Partner shall not bear any liability if a price, reasonably believed by it to be an accurate valuation of a particular investment of the Fund, is subsequently found to be inaccurate.

***Risk of Litigation.*** In the ordinary course of business, the Fund may be subject to litigation from time to time. The Fund could be named as a defendant in a lawsuit or regulatory action. The outcome of such proceedings may materially adversely affect the value of the Fund and may continue without resolution for long periods of time. Any litigation may consume substantial amounts of the General Partner's time and attention, and substantial amounts of Fund resources, and that time and the devotion of these resources to litigation may, at times, be disproportionate to the amounts at stake in the litigation.

Certain trading strategies, once widespread and accepted, may from time to time, become subject to regulatory and self-regulatory scrutiny and litigation due to legal and/or political factors. There can be no assurance that certain strategies implemented by the Fund—all currently thoroughly consistent with market practice and applicable regulations—may not become subject to such scrutiny and liability exposure.

***Limited Regulatory Oversight.*** The Fund is not registered as an investment company under the Company Act or any comparable regulatory regime. Therefore, investors in the Fund do not have the benefit of the protections afforded by, and the Fund, is not subject to the restrictions resulting from such registrations.

***Possibility of Additional Government or Market Regulation.*** Market disruptions and the dramatic increase in the capital allocated to alternative investment strategies during recent years have led to increased governmental as well as self-regulatory scrutiny of the “hedge fund” industry in general. In addition, there have recently been certain well-publicized incidents of regulators unexpectedly announcing regulatory changes or interpretations which prohibited strategies which had been implemented in a variety of formats for many years. It is impossible to predict what, if any, changes in regulation applicable to the Fund, the General Partner, the markets in which the Fund trades and invests or the counterparties with which the Fund does business may be instituted in the future. Any such regulation could have a material adverse impact on the profit potential of the Fund.

***Limited Partners Do Not Participate in Management.*** Limited Partners (other than officers, employees, and agents of the General Partner who may be Limited Partners) do not participate in the management of the Fund or its investments or business.

***No Representation.*** Winston & Strawn LLP (“W&S”) served as U.S. legal and tax counsel to the General Partner in connection with the preparation of this Memorandum. W&S does not represent and has not represented the prospective investors or the Fund in the course of the offering of the Interests or in respect of the Fund’s ongoing operations. Prospective investors must recognize that, as they have had no representation in the organization process, the terms of the Fund relating to investors and the Interests were not negotiated at arm’s length.

***Potential Conflicts of Interest.*** The Fund is subject to various potential conflicts of interest. For example, the General Partner and its officers and employees are not required to devote their full time to the Fund; in structuring the Fund, the General Partner has not retained separate legal counsel to represent the Limited Partners; the terms of the Partnership Agreement and the General Partner’s compensation were not set by arm’s-length negotiation; and the General Partner could have financial and other incentives to favor other accounts over the Fund. See “Potential Conflicts of Interest,” below.

***Liability Standard; Indemnification.*** The General Partner (and its officers, employees and Affiliates) will not be liable to the Fund except in limited instances and they are entitled to indemnification from the Fund for liabilities and expenses they may incur in acting for the Fund if their acts or omissions did not constitute willful misconduct, fraud or bad faith. The General Partner will in no event be liable for any taxes assessed against the Fund. The Fund will not carry insurance to cover its indemnification obligations. However, the Fund may pay for director’s and officer’s insurance for the General Partner.

## **Tax Risks and Employee Benefit Plans**

**Taxation.** Certain tax risks are discussed under the heading “Certain Federal Income Tax Considerations.” Prospective investors are urged to consult their own tax advisors with respect to their particular tax situations and the effects of an investment in the Fund.

**Tax-Exempt Investors.** The Fund may generate unrelated business taxable income, which is taxable to some or all tax-exempt investors.

**Employee Benefit Plan Risks.** Since the Fund may generate unrelated business taxable income, the Fund may not be a suitable investment for the assets of a Plan. In considering an investment in the Fund of the assets of a Plan (as defined in “**Certain Employee Benefit Plan Considerations**”), a fiduciary, taking into account the facts and circumstances of such Plan, should consider, among other things, (i) whether the investment satisfies the diversification requirements of Section 404(a)(1)(C) of ERISA or other applicable law; (ii) whether the investment is prudent, considering the nature of an investment in the Fund in the context of the Plan’s portfolio; and (iii) whether an investment in the Fund is otherwise consistent with the governing documents of, and laws applicable to, the Plan. There are additional significant considerations for fiduciaries of Plans such as whether the investment would give rise to prohibited transactions under ERISA or Section 4975 of the Code or result in violations of other applicable law. See “**Certain Employee Benefit Plan Considerations**” for details.

**THE FOREGOING RISK FACTORS DO NOT PURPORT TO BE A COMPLETE EXPLANATION OF ALL OF THE RISKS INVOLVED IN THE FUND OR THIS OFFERING. POTENTIAL INVESTORS SHOULD READ THIS MEMORANDUM IN ITS ENTIRETY BEFORE DETERMINING WHETHER TO INVEST AND SHOULD CONSULT THEIR OWN FINANCIAL AND TAX ADVISORS CONCERNING THE RISKS AND MERITS OF AN INVESTMENT IN THE FUND.**

## **POTENTIAL CONFLICTS OF INTEREST**

*The Fund is subject to various potential conflicts of interest. Although these conflicts are fairly typical of hedge fund managers, the Fund and the General Partner wish to call prospective investors’ particular attention to the following non-exhaustive list of potential conflicts of interest.*

### **The General Partner**

The General Partner controls the Fund, acting as its investment adviser and general partner and receiving substantial remuneration for doing so.

Although the General Partner believes that the terms on which it provides investment-related and other services to the Fund are fair, the arrangements between the Fund and the General Partner were not negotiated on an arm’s-length basis.

The Partnership Agreement does not impose any specific obligations or requirements concerning the General Partner’s allocation of time, effort or investment opportunities to the Fund, other client accounts managed by the General Partner, or the General Partner’s own accounts. The General Partner’s principals and trading personnel are not obligated to devote any specific amount of their business time to the affairs of the General Partner.

The General Partner also serves as investment manager to the Continental Healthcare Funds, Continental Opportunities Fund, L.P., and Continental Offshore Fund, Ltd. The General Partner also may manage other accounts and the principals and employees of the General Partner manage their own accounts. The investment performance of the Fund may differ from, and may under-perform, other funds or accounts managed by the General Partner. The General Partner may “seed” other investment products that compete directly or indirectly with the Fund.

The other funds and accounts managed by the General Partner or affiliates of the General Partner have different investment objectives and strategies than the Fund; therefore, the General Partner may provide advice and enter into transactions that vary materially among the Fund and such other funds and accounts.

The General Partner is not required to accord exclusivity or priority to the Fund in relation to any investment opportunities. The Fund will not have a right of first refusal, co-investment or other right with respect to any investment opportunity. The General Partner may have financial or other incentives to favor other funds or accounts over the Fund. In the event that there are investment opportunities that may be suitable for the Fund and one or more other funds or accounts managed by the General Partner, the General Partner will use reasonable efforts to allocate such investment opportunities among these funds and accounts (including the Fund) in a manner that the General Partner deems equitable over time. In making such determination, the General Partner may consider factors such as the differences among the investment strategies employed by the various funds and accounts, tax considerations, regulatory considerations, working capital availability, risk capital availability and any other factor that it deems appropriate. However, there can be no assurance that the Fund will participate in any particular investment opportunity on an equal or *pro rata* basis with these other funds and accounts.

The principals and employees of the General Partner and their respective family members hold a significant ownership interest in the Fund and other funds and accounts managed by the General Partner. While the General Partner believes that this ownership aligns its interests with those of the other Limited Partners, such ownership could create potential conflicts if the interests of the principals and employees of the General Partner and their respective family members that have an ownership interest in the Fund are not aligned with those of the other Limited Partners. Moreover, a potential conflict of interest could arise if principals or employees of the General Partner or their respective family members make substantial withdrawals from the Fund.

The General Partner is not required to obtain the lowest brokerage commission rates or combine or arrange orders to obtain the lowest brokerage commission rates on Fund brokerage business. In placing brokerage business, the General Partner will consider the full range and quality of the services provided by the broker including, among other things, the value of any research provided as well as execution capabilities, commission rate, financial responsibility, and responsiveness. At the option of the General Partner, a broker or dealer may be selected that provides its own trading services and, in addition, research services through a third party. In negotiating commission rates, the General Partner may take into account the financial stability and reputation of the broker or dealer and the brokerage, research and other services provided by such broker or dealer pursuant to a soft dollar arrangement, even though the Fund may not, in any particular instance, be the direct or indirect beneficiary of the research or other services provided. Such products and services may include, but are not limited to, research and Bloomberg terminals. The General Partner will accept soft dollar products and services only when it believes such products and services are within the safe harbor under Section 28(e) of the Securities Exchange Act of 1934, as amended.

The General Partner has a fiduciary duty to the Limited Partners to exercise good faith and fairness in all dealings affecting the Fund. If a Limited Partner believes this duty has been violated, it

may seek legal relief under applicable law, for itself and other similarly situated Limited Partners, or on behalf of the Fund. However, it may be difficult for Limited Partners to obtain relief because of the changing nature of the law, the vagueness of standards defining required conduct, and the broad discretion given the General Partner in the Partnership Agreement and the exculpatory provisions therein.

From time to time, the General Partner may permit certain investors to acquire Interests on business terms that are different than or preferential to those described in this Memorandum, including, but not limited to, waiving the minimum initial investment requirement, lowering the Management Fee and/or Incentive Allocation, providing such investors with information regarding the Fund that is not provided (or not provided as frequently) to other Limited Partners, and permitting such investors to make capital withdrawals more frequently and/or with less notice. Permitting withdrawals by certain Limited Partners more frequently and/or on shorter notice periods than permitted for other Limited Partners could work to the detriment of such other Limited Partners. Other Limited Partners will not normally be advised of, and have no right to object to or participate in, any such special arrangements.

## **CERTAIN FEDERAL INCOME TAX CONSIDERATIONS**

*The following is a summary of certain aspects of the U.S. federal income taxation of the Fund and its Limited Partners that should be considered by a prospective purchaser of an Interest, and is based upon the Internal Revenue Code of 1986, as amended (the "Code"), regulations promulgated under the Code ("Treasury Regulations"), court decisions, and administrative rules, practices, and interpretations of law of the Internal Revenue Service (the "IRS") as in effect on the date of this Memorandum. Future legislative or administrative changes or court decisions may significantly change the conclusions expressed herein, and any such changes or decisions may have a retroactive effect.*

*Except as specifically discussed below, this summary describes the general federal income tax considerations applicable to Limited Partners that are any of (i) a citizen or resident of the U.S.; (ii) a corporation or other entity taxable as a corporation organized under the laws of the U.S. or any state thereof; (iii) an estate whose income is subject to U.S. federal income tax regardless of its source; (iv) a trust if a U.S. court can exercise primary supervision over the trust's administration and one or more U.S. persons are authorized to control all substantial decisions of the trust; or (v) an entity that is disregarded as separate from its owner if all of its interests are owned by a single person described in clauses (i) through (iv). This summary does not purport to deal with all aspects of federal income taxation that may affect Limited Partners, particularly in light of their specific circumstances, nor with Limited Partners that may be subject to special treatment under the federal income tax laws. In addition, this summary does not discuss the tax consequences of an investment in the Fund by investors that are non-U.S. persons. A complete discussion of the federal, state, local, and foreign tax consequences of an investment in the Fund is beyond the scope of this summary. Further, this discussion does not address the tax treatment of transactions not currently within the investment objectives and policies of the Fund.*

*No representation is made as to the tax consequences of the operations of the Fund. Moreover, the Fund generally will not be managed in order to minimize the tax liability of Limited Partners or otherwise in light of the particular tax status of one or more Limited Partners. The Fund has not sought and will not seek a ruling from the IRS with respect to any federal income tax consequences, and counsel's views on any such consequences are not binding on the IRS or the courts.*

*Each Limited Partner that is treated, for U.S. federal income tax purposes, as a partnership should consult its own tax advisor.*

## **IRS Circular 230 Disclosure**

**This discussion was written on the understanding that it may be used or referred to in the promoting, marketing, and recommending of the investment discussed in this Memorandum. The discussion was not written and is not intended to be used by any person, and cannot be used by any person, for purposes of avoiding penalties under the Code. *Each potential Limited Partner should seek advice from an independent tax advisor based on the potential Limited Partner's particular situation.***

## **Fund Status**

Under current law, the Fund is initially classified as a partnership, and not as an association taxable as a corporation, for federal income tax purposes.

A publicly traded partnership ("PTP") is generally treated as a corporation for federal income tax purposes. If the Fund were treated as a PTP, the Limited Partners would not be treated as partners for federal income tax purposes, and income or loss of the Fund would not be passed through to the Limited Partners. Instead, the Fund would be subject to federal income tax on its income at the rates applicable to corporations. Accordingly, status of the Fund as a PTP would materially reduce the after-tax return to a Limited Partner from its investment in the Fund.

The Fund generally would constitute a PTP if its Interests are "traded on an established securities market" or "readily tradable on a secondary market (or the substantial equivalent thereof)," unless at least 90% of the Fund's gross income for a taxable year consists of income from dividends, interest (to the extent such interest is neither derived from the "conduct of a financial or insurance business" nor based upon "income or profits" of any person), capital gains, and certain other qualifying income.

The General Partner intends that the Fund will comply with and rely on this 90% qualifying income exception from PTP status. The Fund may also rely upon other safe harbors from PTP status provided under Treasury Regulations to the extent available. However, the continued availability of these safe harbors cannot be known at present, and there is no assurance that the Fund would qualify under any such safe harbors.

The discussion set forth in the following paragraphs assumes that the Fund will be taxed as a partnership (and not a PTP taxable as a corporation) for federal income tax purposes.

## **Taxation of Limited Partners**

As a partnership, the Fund will not be subject to U.S. federal income tax. Each Limited Partner will be liable for taxes on its allocable share of Fund income regardless of whether the Fund has made any distributions to the Partners. Thus, it is very possible that a Limited Partner's income tax liability in any particular fiscal year attributable to Fund income will exceed the cash distributed to the Partner by the Fund.

A Limited Partner's distributive share of such items for federal income tax purposes generally will be determined by the allocations made pursuant to the Partnership Agreement, provided that such allocations either have "substantial economic effect" or are deemed to be in accordance with the Limited Partners' interests in the Fund. Under the Partnership Agreement, allocations generally will be made in proportion to Limited Partners' capital accounts and therefore should have substantial economic effect.

However, upon a withdrawal, the Fund generally intends to specially allocate separate Fund items of income, gain, loss and deduction to the withdrawing Limited Partner to the extent necessary such that the Limited Partner would have an adjusted tax basis in its Interest equal to the withdrawal payment. The General Partner generally retains sole discretion in determining the character of any such items specially allocated to a particular withdrawing Limited Partner. Although the General Partner believes that it is appropriate to report these special allocations for federal income tax purposes, there are no assurances that such allocations could not be successfully challenged. If such allocations are not sustained, each Limited Partner's distributive share of the items that are the subject of such allocations would be redetermined based upon his or her interest in the Fund by taking into account all relevant facts and circumstances. Such a redetermination might result in a larger share of income or gain being allocated (solely for tax purposes) to the Limited Partners who had made withdrawals during such taxable year than was allocated to them pursuant to the Partnership Agreement.

A Limited Partner may not recognize a loss upon a partial redemption of its Interest or partial withdrawal of its capital account, and may only recognize a loss upon a complete withdrawal or the redemption or termination of its entire interest in the Fund after the Limited Partner has received all distributions and payments in respect of such complete withdrawal, redemption, or termination. In such case, and to the extent the special allocations described above are not available, the Limited Partner generally would recognize a capital loss to the extent of any remaining tax basis in its Interest.

To the extent the special allocations described above are not available, cash distributed (including with respect to partial capital account withdrawals and partial redemption payments) to a Limited Partner may exceed the adjusted tax basis of its Interest. Such excess will be treated as an amount received on the sale or exchange of its Interest and generally will be taxable as capital gain. Any capital gain or loss recognized by a Limited Partner upon a distribution, withdrawal, redemption, termination, or other disposition of Interests generally will be long-term capital gain or loss to the extent of the portion of the Limited Partner's Interests that are held for more than twelve months, and short-term capital gain or loss to the extent of the portion of the Limited Partner's Interests that are held for twelve months or less. For this purpose, a Limited Partner will begin a new holding period in a portion of its Interests each time it makes an additional investment in the Fund.

Where the Fund makes a distribution that constitutes a "substantial basis reduction" distribution (e.g., the complete redemption of a Limited Partner's Interests, where the Limited Partner recognizes a tax loss in excess of \$250,000), the Fund is generally required to adjust its tax basis in its assets in respect of all Partners. The Fund also is required to adjust its tax basis in its assets in respect of a transferee Limited Partner in the case of a sale or exchange of an Interest, or a transfer upon death, when there exists "substantial built-in loss" (i.e., in excess of \$250,000) in respect of Fund property immediately after the transfer. The Fund will use its best efforts to comply with these requirements.

An in-kind distribution of property other than cash generally will not result in taxable income or loss to any Limited Partner. For purposes of the foregoing, a distribution of "marketable securities" is treated as a distribution of cash. An exception to the foregoing rule is provided with respect to distributions of marketable securities by an "investment partnership" to an "eligible" partner. The investment partnership exception may generally apply to distributions from the Fund to a Limited Partner, although no assurances may be given that such will be the case.

***Income or Loss on Securities.*** Generally, the gains and losses realized by the Fund on the sale of securities should primarily be capital gains or losses, except in respect of debt securities, to the extent of any accrued market discount not previously included in the income of the Fund and any amount realized attributable to accrued but unpaid interest. Generally, securities must be held for more than twelve months for the gain from the sale of the securities to qualify as long-term capital gains. Gains or losses



on sales of securities that are held for twelve months or less are treated as short-term gains or losses and are taxed at ordinary income rates. The Fund may also realize ordinary income, including from interest and dividends.

For purposes of determining gain or loss in respect of the disposition or repayment of debt securities that are denominated in a currency other than the U.S. dollar (“foreign currency securities”), the amount of foreign currency gain or loss with respect to the principal of the foreign currency security generally will be determined by translating the foreign currency principal into U.S. dollars at the spot rate on the date of disposition or repayment and then subtracting the amount computed by translating the foreign currency principal into U.S. dollars at the spot rate on the date the Fund acquired the foreign currency security. For securities treated as traded on an established securities market, the Fund may elect whether to translate the units of foreign currency received into U.S. dollars at the spot rate on the trade date for the sale (or on the settlement date of the sale).

In determining the amount of interest realized on foreign currency securities, the Fund may use the average foreign currency exchange rate during the relevant interest accrual period (or portion thereof). The Fund will make an adjustment upon receipt of the foreign currency to reflect actual exchange rates at that time. Certain alternative elections may also be available, with respect to which prospective Limited Partners should consult their tax advisors. The Fund will recognize foreign currency exchange gain or loss with respect to accrued interest income on the date such income is received or the instrument is disposed of equal to the difference, if any, between the U.S. dollar value of the foreign currency payment received in respect of such accrual period and the U.S. dollar value of interest income that has accrued during such accrual period (as determined above).

Any foreign currency gain or loss on the sale, exchange, or retirement of either principal or interest of a foreign currency security will be ordinary income or loss to the extent it arises from currency fluctuations between the purchase date and disposition date of such security and will be recognized by the Fund only to the extent of the total gain or loss that the Fund realizes on the sale, exchange, or retirement of the foreign currency security.

For purposes of determining gain or loss in respect of the sale of stock traded on an established securities market for a currency other than the U.S. dollar, the Fund may elect whether to translate the units of foreign currency received into U.S. dollars at the spot rate on the trade date for the sale or on the settlement date of the sale. With regard to dividends denominated in foreign currencies, the amount of dividend income that must be included in the income of the Fund is equal to the U.S. dollar value of the payments made, determined at the spot rate on the date the dividend distribution is includible in income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency fluctuations during the period from the date the dividend payment is included in income to the date the payment is converted into U.S. dollars will be ordinary income or loss.

Currently, there is a reduced rate of income tax rate for Limited Partners that are individuals, estates, or trusts on long-term capital gains (including 60% of capital gains on “Section 1256 Contracts” described below) and dividend income that constitute “qualified dividend income.” Dividends are treated as qualified dividend income if the taxpayer meets certain holding period requirements with respect to the shares on which dividends are paid and, in the case of dividends paid by a foreign corporation if certain other requirements are met. This rate is scheduled to increase for taxable years beginning after December 31, 2010. However, given the current economic and political climate, there can be no assurance that such preferential rate will not increase with effect prior to December 31, 2010.

Gain or loss with respect to stock or securities is generally taken into account for tax purposes only when realized. In addition, in certain circumstances, gain (but not loss) will be recognized upon a

constructive sale of any “appreciated financial position” in certain securities, stock, or partnership interests. A constructive sale currently occurs when the taxpayer enters into one of the following positions with respect to the same or substantially identical property: (1) a short sale, (2) an offsetting notional principal contract, or (3) a futures or forward contract.

Further, the Fund is generally authorized to enter into investments that may constitute positions in a “straddle” when considered in conjunction with the other investments of the Fund (or perhaps even positions held by a U.S. fund in its independent capacity). If two or more positions constitute a straddle, recognition of a realized loss from one position must be deferred to the extent of unrecognized gain in an offsetting position. In addition, long-term capital gain may be recharacterized as short-term capital gain, or short-term capital loss may be recharacterized as long-term capital loss. Interest and other carrying charges allocable to personal property that is part of a straddle are not currently deductible, but must instead be capitalized.

The Code allows a taxpayer to elect to offset gains and losses from positions that are part of a “mixed straddle.” A “mixed straddle” is any straddle in which one or more but not all positions are Section 1256 Contracts. Pursuant to temporary Treasury Regulations, the Fund may be eligible to elect to establish one or more mixed straddle accounts for certain of its mixed straddle trading positions. The mixed straddle account rules require a daily “marking to market” of all open positions in the account and a daily netting of gains and losses from positions in the account. At the end of a taxable year, the annual net gains or losses from the mixed straddle account are recognized for tax purposes. The application of the temporary Treasury Regulations’ mixed straddle account rules is not entirely clear. Therefore, there is no assurance that the IRS will accept a mixed straddle account election by the Fund.

“Wash sale” rules similarly may apply to prevent the recognition of loss by the Fund from the disposition of securities at a loss in a case in which identical or substantially identical securities are or have been acquired within a prescribed period.

**Short Sales.** Under the rules for short sales, a short sale of property not owned by the Fund (not otherwise covered by the straddle rules) remains open until the short seller delivers the property to the lender and closes the transaction. Any gain from closing a naked short sale would likely be treated as short-term capital gain.

**Original Issue Discount, Market Discount, and Bond Premium.** The Fund may acquire bonds and other debt instruments for less than their face amount. The amount of the discount generally will be treated as original issue discount (“OID”) for debt instruments purchased at issue or as “market discount” for instruments purchased in the secondary market. The OID that accrues will be reported as interest income by the Fund and an applicable portion will be passed through to the Limited Partners, although the Fund generally will not receive payments corresponding to this income until the maturity of or the disposition by the Fund of the debt instrument.

Any OID on foreign currency securities will be determined in the relevant foreign currency (and thereafter translated into the U.S. dollar as the functional currency of the Fund). The Fund must accrue and pass through OID ordinary income to Limited Partners in the same manner that it accrues interest income on a foreign currency security. The amount of foreign currency gain or loss (which will be treated as ordinary income or loss) on the accrued OID is determined by comparing the amount of income received attributable to the discount (either upon payment, maturity or an earlier disposition), as translated into U.S. dollars at the rate of exchange on the date of such receipt, with the amount of OID accrued, as translated above.

Market discount which accrues need not be recognized in income by the Fund until maturity or disposition of the debt instrument, but in such case the Fund will be unable to deduct interest expense it incurs to purchase or carry the instrument until the market discount is recognized in income. Taxable income from OID and market discount recognized by the Fund will result in appropriate adjustments in any gain or loss recognized upon a sale, exchange, or repayment of such obligations.

Market discount on a foreign currency security is determined in units of the foreign currency. Accrued market discount taken into account upon the receipt of any partial principal payment or upon the sale, exchange, or retirement of a foreign currency security (other than accrued market discount required to be taken into account currently) is translated into U.S. dollars at the exchange rate on such disposition date (and no part of such accrued market discount is treated as foreign currency exchange gain or loss (which will be treated as ordinary income or loss)). Accrued market discount currently includible in income for any accrual period is translated into U.S. dollars on the basis of the average exchange rate in effect during such accrual period, and the foreign currency exchange gain or loss (which will be treated as ordinary income or loss) is determined upon the receipt of any partial principal payment or upon the sale, exchange, or retirement of a foreign currency security in the manner used by the Fund with respect to computation of foreign currency exchange gain or loss (which will be treated as ordinary income or loss) on accrued interest on foreign currency securities.

If the Fund purchases a bond at a cost that, generally, is in excess of the amount payable on maturity, the excess may constitute amortizable bond premium which is treated as a reduction of interest on such bond. If the Fund makes an applicable election, it generally allocates amortizable bond premium among the interest payments on the bond and the amount so allocated generally will be applied against (and operate to reduce) the amount of such interest payments.

Amortizable bond premium in respect of foreign currency securities is determined in the relevant foreign currency and reduces interest income in units of the foreign currency. If the Fund makes an election under Code section 171, amortizable bond premium taken into account under that Code section will reduce interest income in units of nonfunctional currency. Exchange gain or loss is realized with respect to such premium by treating the portion of bond premium amortized with respect to a period as a return of principal. If the Fund does not make an election under Code section 171, the amount of bond premium will constitute a market loss when the foreign currency security matures.

***Derivative and Section 1256 Contracts.*** The Fund does not presently intend to invest in derivative contracts with respect to securities and commodities, although it may do so in the future. Some of these derivative contracts, as well as other financial instruments in which the Fund may invest, may constitute “Section 1256 Contracts,” including exchange-traded futures contracts, exchange-traded non-equity options, and foreign currency contracts traded in the interbank market. With certain exceptions, all open Section 1256 Contracts held by the Fund at the end of its taxable year also will be marked to market for federal income tax purposes. As a result, all unrealized gains and losses of the Fund with respect to such Section 1256 Contracts (along with realized gains or losses) will be recognized and reported for federal income tax purposes by the Fund, and consequently the Limited Partners, even though the value of these open contracts may decline in a subsequent taxable year. Gains and losses from Section 1256 Contracts generally will be treated as 60% long-term capital gain or loss and 40% short-term capital gain or loss (subject to certain additional procedures and elections in the case of foreign currency contracts). Derivative contracts entered into by the Fund that do not constitute Section 1256 Contracts may generate capital gain or loss or ordinary income or loss.

***Option Trading.*** Option transactions by the Fund (other than options that are Section 1256 Contracts) generally will result in gain or loss when the particular option either is ultimately exercised, expires unexercised, or is sold (subject to the straddle rules described above). Gain or loss recognized by

the Fund on a sale to close a purchased option (which is not a Section 1256 Contract) or recognized on expiration of an option (which is not a Section 1256 Contract) will be treated in the same manner as gain or loss from the sale of the underlying property to which the option relates. With some exceptions, these activities are expected to generate short-term capital gain or loss unless the underlying stock or securities do not constitute capital assets in the hands of the Fund, in which case there may be generated ordinary income or loss. If a call option purchased by the Fund is exercised, gain or loss will be deferred until the underlying stock or security acquired is later sold. Gain on the sale of a stock or security pursuant to the exercise of a put option acquired by the Fund generally will be taxed as short-term capital gain, unless such stock or security was held for at least twelve months. Similar rules pertain to the grant by the Fund of an option, as recognition of income attributable to the premium received is deferred until the Fund assigns the option or the option is exercised by the purchaser or lapses unexercised.

***Warrants.*** The Fund generally will not recognize gain or loss upon the exercise of a particular warrant. If a warrant lapses unexercised, the Fund generally will recognize a taxable loss in the amount of its adjusted tax basis in the warrant. Gain or loss recognized by the Fund on a sale of a warrant (and loss upon lapse of a warrant) will be treated in the same manner as gain or loss from the sale of the underlying stock or securities to which the warrant relates. If a warrant is exercised by the Fund, gain or loss on the underlying stock or security acquired generally will be deferred until such stock or security is sold. The holding period of the stock or security received pursuant to the exercise of a warrant issued to the Fund generally will start upon that exercise date.

***Conversion Transactions.*** It is possible, although probably not likely, that certain transactions in which the Fund engages would constitute “conversion transactions” that are prevented from converting ordinary income into capital gains. “Conversion transactions” are those that result in a gain that is primarily based upon the time value of a taxpayer’s investment and not upon capital risk. In addition, the transaction would have to constitute any of (a) a transaction in which the taxpayer acquires property and on a substantially contemporaneous basis enters into a contract to sell the property (or substantially identical property) for a determined price, (b) a straddle, or (c) a transaction that is marketed or sold as producing capital gains.

Upon application of the rules for conversion transactions to a financial instrument held by the Fund, the amount of the Fund’s ordinary income (which will be passed through to the Limited Partners) will be computed by using an applicable federal interest rate.

***Securities Lending.*** The Fund may engage in securities lending. Under the Code, a securities loan is a non-taxable transaction. However, to the extent that all dividends, interest, or other income paid on the securities during the period of a loan will be paid to the Fund by the borrower as equivalent amounts, such income should be treated by the Fund as a fee for the temporary use of property and should be characterized as ordinary income, but not as dividend, interest, or such other income, to the Fund. In addition, the Fund will have income either from the investment of cash collateral or from fees in those transactions where the borrower posts a letter of credit or U.S. treasury obligations as collateral. Such additional income would also constitute ordinary income, but not dividend or interest income. Accordingly, none of the Fund’s income from a portfolio securities lending transaction will constitute qualified dividend income, as discussed above.

### **Limitations on the Ability of Limited Partners to Deduct Fund Losses and Expenses**

The Code provides many restrictions and limitations that may prevent a Limited Partner from receiving the full tax benefit from expenses and losses of the Fund, if any, passed through to the Limited Partners. These restrictions and limitations include the following:

***“At Risk” / Tax Basis of Interests.*** A Limited Partner will only be entitled to deduct the share of Fund taxable losses that are passed through to the Limited Partners to the extent such taxable losses do not exceed the tax basis of such Limited Partner’s Interests as of the end of the Fund’s taxable year in which such loss occurs. Further, with respect to a Limited Partner who is an individual, trust, estate, or a closely held C corporation, such Limited Partner’s share of Fund taxable losses that are passed through to it will only be deductible on such Limited Partner’s income tax return to the extent such Limited Partner’s tax basis in its Interests as of the end of the Fund’s taxable year in which such loss occurs is considered to be “at risk.” For this purpose, a Limited Partner’s “at risk” amount will not include certain types of non-recourse borrowing that the Limited Partner uses to finance its Interest.

***Capital Losses / Loss Carryovers.*** Currently, the excess of a noncorporate Limited Partner’s capital loss over capital gain in any year is only deductible against ordinary income up to \$3,000. Net capital losses that exceed this limitation may be carried forward to subsequent years and deducted against capital gains in those years plus \$3,000 of ordinary income. A noncorporate Limited Partner generally may not carry back net capital losses to previous taxable years. However, under a special rule, an individual Limited Partner’s net losses from Section 1256 Contracts generally may be carried back up to three years to offset net gains from Section 1256 Contracts realized in such previous years. Corporations are allowed to use capital losses to offset in full capital gains but are not allowed to use capital losses to offset ordinary income. A corporate Limited Partner’s net capital loss in any year generally may be carried back to each of the three taxable years preceding the loss year and carried forward to each of the five taxable years succeeding the loss year.

***Deduction of Fees.*** The Code provides that, for noncorporate taxpayers who itemize deductions when computing taxable income, investment advisory fees, and other “miscellaneous itemized deductions” will only be deductible to the extent such amount exceeds 2% of a taxpayer’s adjusted gross income. In addition, “miscellaneous itemized deductions” in excess of the 2% threshold, when combined with certain of a taxpayer’s other deductions, are subject to a reduction equal to 3% of the taxpayer’s adjusted gross income in excess of a threshold amount that is increased annually to account for inflation. (This 3% reduction began to be phased out in 2006 and will be eliminated by 2010.) Moreover, “miscellaneous itemized deductions” are not deductible by a noncorporate taxpayer in calculating its alternative minimum tax.

The Fund will determine, based on its activities, whether it will report a noncorporate Limited Partner’s distributive share of Management Fees and other operating expenses of the Fund as trade or business expenses, or as investment expenses, which would be deductible for regular income tax purposes only to the extent that such share, together with the Limited Partner’s other miscellaneous itemized deductions, exceeds 2% of its adjusted gross income. The Fund has not yet made such determination. To the extent that the Incentive Allocation were successfully recharacterized as a fee, it would be subject to any such limitation. This limitation may result in a noncorporate Limited Partner having to report taxable income in excess of its economic profits from the Fund.

***Investment Interest Expense.*** A noncorporate Limited Partner’s distributive share of interest expense and deductions in connection with a short sale incurred by the Fund and interest incurred by a noncorporate Limited Partner to acquire or carry its Interest likely will be investment interest, deductible only to the extent of the net investment income of the Limited Partner for the year (i.e., the excess of income from interest, dividends, and gains from the disposition of investment property over expenses incurred in earning such income). In computing net investment income, both long-term capital gains and dividends that would otherwise be taxable at a 15% rate are includable only if the noncorporate Limited Partner elects to have such gains and dividends taxed at the same rate as ordinary income. Excess investment interest expense may be carried over to and deducted in subsequent years to the extent it

would be deductible if incurred in that year. This limitation, if applicable, will be computed separately by each Limited Partner and not by the Fund.

***Income and Losses from Passive Activities.*** Losses claimed by a Limited Partner who is an individual, estate, trust, personal service corporation, or closely held C corporation from business activities in which the Limited Partner does not materially participate (“passive activities”) are generally only deductible to the extent of income from other passive activities. Treasury Regulations provide that gross income from the activity of buying, holding and selling of stocks, bonds and other financial securities on established financial markets is not a passive activity if such activity rises to the level of a “trading” business. Treasury Regulations further provide that, if such activity does not rise to the level of a trading business, such activity (whether or not occurring through established financial markets) is also not a passive activity. Accordingly, it appears that the income or loss of the Fund should generally not be treated as passive activity income or loss, and therefore a Limited Partner’s distributive share of Fund income should not be offset by losses that the Limited Partner may have from passive activities.

### **Investment by Tax-Exempt Limited Partners**

Each otherwise tax-exempt Limited Partner (including charitable organizations, private foundations, and individual retirement accounts (“IRAs”)) is subject to tax on its unrelated business taxable income (“UBTI”). Such Limited Partner generally is subject to the same provisions as a taxable Limited Partner (whether a trust or corporation, as applicable) with respect to reporting and paying regular and minimum tax (including the requirement to make estimated tax payments) on such income. Private foundations also may be subject to additional income tax on their net investment income (including income from the Fund) as well as various excise taxes.

There are no restrictions imposed on the Fund’s ability to generate UBTI. The Fund’s investments may be “debt financed” in that they may be acquired using margin financing or other forms of leverage. Thus, the Fund may generate substantial UBTI, and a tax-exempt Limited Partner’s share of income and gain (if any) of the Fund is anticipated to consist of a significant amount of UBTI. (A tax-exempt Limited Partner’s share of income and gain of the Fund would also consist of UBTI to the extent it incurs indebtedness in connection with, or related to, its purchase of Interests.)

For certain types of tax-exempt entities, the receipt of UBTI may have adverse consequences different from those discussed above. For example, any UBTI earned by a charitable remainder trust is subject to a 100% excise tax.

*Potential Limited Partners that are tax-exempt entities are urged to consult their tax advisors regarding the application to an investment in the Fund of rules relating to a tax-exempt entity’s participation in an prohibited tax-shelter transaction.*

### **Fund Audit Procedures, Interest, and Penalties**

Informational returns filed by the Fund are subject to audit by the IRS. Any such audit could lead to adjustments, in which event the Limited Partners might be required to file amended federal income tax returns. An audit of the Fund’s tax return could also lead to an audit of a Limited Partner’s tax return that may, in turn, lead to adjustments other than those relating to an investment in the Fund. Interest, which for noncorporate taxpayers is non-deductible, and penalties, which are non-deductible for all taxpayers, may be asserted and imposed on tax deficiencies as the result of an audit.

## **Tax Shelter Treasury Regulations; Disclosure**

Prospective Limited Partners are urged to consult their own tax advisors regarding the application to an investment in the Fund of rules relating to reportable transactions and the disclosure requirements associated therewith.

### **State and Local Taxes**

Each Limited Partner may be required to file returns and pay state and local tax on its share of Fund income (including possibly on its gross income) in the jurisdiction in which it is a resident and/or other jurisdictions in which the Fund earns income. The Fund may be required to withhold and remit payment of taxes to one or more state or local jurisdictions on behalf of the Limited Partners. Any amount withheld will be treated as a distribution to the particular Fund(s) under the partnership agreement for the Fund. State and local taxes may be significant.

### **Foreign Taxes and Foreign Tax Credits**

Interest and dividends paid on securities of foreign issuers held by the Fund and passed through to the Limited Partners may be subject to taxes imposed by a foreign country. Subject to the requirements and limitations imposed by the Code or Treasury Regulations promulgated thereunder, Limited Partners may be entitled to claim their allocable share of any such foreign taxes paid by the Fund and passed through to the Limited Partners as a foreign tax credit against their U.S. federal income tax liability. Limited Partners who do not elect to claim a foreign tax credit may claim a deduction for their allocable share of such foreign taxes (subject to other applicable limitations on the deductibility of such taxes).

**The foregoing discussion is not intended as a substitute for careful tax planning, particularly since the income tax consequences of an investment in the Fund may not be the same for all taxpayers. ACCORDINGLY, PROSPECTIVE LIMITED PARTNERS ARE ADVISED TO CONSULT THEIR TAX ADVISORS WITH SPECIFIC REFERENCE TO THEIR OWN TAX SITUATION UNDER FEDERAL LAW AND THE PROVISIONS OF APPLICABLE STATE, LOCAL, FOREIGN, AND OTHER LAWS BEFORE SUBSCRIBING FOR INTERESTS.**

## **CERTAIN EMPLOYEE BENEFIT PLAN CONSIDERATIONS**

Subject to the following discussion, the purchase of Interests may be a suitable investment for a benefit plan investor or other employee benefit plan (hereinafter referred to as a **“Plan”**). Such Plans include employee benefit plans subject to ERISA (collectively, **“ERISA Plans”**), individual retirement accounts (IRAs), Keogh Plans which cover only self-employed persons, and other employee benefit plans that are not subject to ERISA but are subject to the prohibited transaction rules of Section 4975 of the Code (collectively, **“Individual Retirement Funds”**), other entities the assets of which are “plan assets” of ERISA Plans or Individual Retirement Funds due to investments in such entities by ERISA Plans or Individual Retirement Funds (collectively, **“Plan Asset Entities”**) (collectively, ERISA Plans, Individual Retirement Funds and Plan Asset Entities are also referred to as **“Benefit Plan Investors”**) and governmental plans and certain church plans (and entities that include the assets of such plans) that are not subject to ERISA or Section 4975 of the Code (collectively, **“Non-ERISA Plans”**).

The law governing investments in the Fund by Plans is subject to extensive administrative and judicial interpretations. Accordingly, the following discussion is not intended to be exhaustive, but rather representative of the legal issues that may be of concern to a Plan investor. Because of the many factual

patterns that may develop in connection with the purchase or holding of Interests, independent advice should be sought regarding each prospective Plan's situation.

### **Responsibilities of the Plan Fiduciary**

Before proceeding with an investment in the Fund of a portion of the assets of a Plan, the person with investment discretion on behalf of the Plan, taking into account the facts and circumstances of such Plan, should consider whether the acquisition of Interests in the Fund is consistent with its fiduciary obligations under Section 404 of ERISA or other applicable law and the permissibility of such investment under the governing documents of the Plan.

Section 404(a)(1) of ERISA and the regulations promulgated thereunder by the U.S. Department of Labor ("**DOL**") provide as a general rule that a fiduciary with respect to a Plan subject to ERISA must discharge its duties with respect to the Plan in a prudent manner, and must perform his or her services solely in the interest of, and act for the exclusive benefit of, Plan participants and beneficiaries. ERISA also requires that a fiduciary of a Plan subject to ERISA act in accordance with the written plan documents (unless such documents are contrary to ERISA). The Plan fiduciary should also consider whether the investment is appropriate in view of its obligations under ERISA or other applicable law to diversify the investments of the Plan so as to minimize the risk of large losses. Likewise, an ERISA Plan fiduciary should consider whether, in view of all of the facts and circumstances, the investment is consistent with its obligations under Section 404(a)(1)(B) of ERISA to discharge one's fiduciary duties "with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims." A Plan fiduciary must also determine that the investment in Interests will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

In analyzing the prudence of an investment in the Fund, attention should be given to the DOL's regulation relating to the investment of assets of a Plan subject to ERISA under the prudence standard. 29 C.F.R. Section 2550.404a-1. The regulation advises that before engaging in a proposed investment, a fiduciary should determine that the investment, viewed in light of its role in the overall investment portfolio for which the fiduciary has responsibility, is designed reasonably to further the Plan's purposes, taking into account the risk of loss and opportunity for gain involved in the investment. In reaching this determination, the fiduciary is advised to consider the portfolio's composition with regard to diversification, the liquidity and current return of the total portfolio relative to anticipated cash flow needs of the Plan, the projected return of the total portfolio relative to the Plan's funding objectives, and the consistency of the Fund's investment objectives with the overall governing documents of the Plan.

The acceptance by the Fund of a subscription from a Plan does not constitute a representation or judgment by the Fund or the General Partner that an investment in the Fund or any continued holding of Interests is an appropriate or permissible investment for the subscribing entity or that such an investment meets the legal requirements applicable to such entity. Those considering the purchase of Interests on behalf of a Plan remain responsible for the Plan's compliance with all applicable legal requirements.

### **Plan Asset Status**

Section 3(42) of ERISA and regulations adopted by the DOL (together, the "**Plan Assets Rules**") set forth rules to determine when an investment in an entity, such as the Fund, by a Benefit Plan Investor will cause the assets of the entity to be treated as assets of the investing Plan under ERISA or Section 4975 of the Code ("**Plan Assets**"). These rules contain an exemption upon which the Fund intends to rely. Under the Plan Asset Rules, when a Benefit Plan Investor acquires an equity interest in any class of



equity in an entity such as the Fund, where the interest is not a publicly offered security or an interest in a registered investment company, as is the case with Interests of the Fund, the underlying assets of the entity will not be deemed to be Plan Assets if investments by Benefit Plan Investors are not significant (*i.e.*, the “25% Ownership Limitation” is met). The 25% Ownership Limitation will be met if less than 25% of the aggregate equity interests in each class of equity of an entity (excluding equity interests held by any person (other than a Benefit Plan Investor) with discretionary authority or control with respect to the entity or any person who provides investment advice for a fee with respect to the entity’s assets or any affiliate of such persons) are owned by Benefit Plan Investors. The 25% Ownership Limitation is applied when a person acquires or disposes of an equity interest in an entity.

The General Partner expects to limit participation by Benefit Plan Investors to less than 25% of the aggregate equity interests in each class of equity of the Fund in order to avoid the underlying assets of the Fund being treated as Plan Assets. The General Partner intends to monitor the Fund’s compliance with the 25% Ownership Limitation. Accordingly, the General Partner does not anticipate accepting a subscription from any prospective investor if, after accepting such subscription, the General Partner believes that the 25% Ownership Limitation would not be met. Moreover, if the 25% Ownership Limitation would be exceeded following any redemption, transfer or other disposition of Interests, the General Partner may choose not to consent to such acquisition or disposition and/or may exercise its mandatory withdrawal right to cause the withdrawal of a sufficient number of Interests held by Benefit Plan Investors to bring the Fund into compliance with the 25% Ownership Limitation.

The Fund will operate under the assumption, absent knowledge to the contrary, that the 25% Ownership Limitation has not been violated and, therefore, a detailed discussion of the consequences of failing to meet the 25% Ownership Limitation is not included in this Memorandum. Nevertheless, there can be no absolute assurance that the Fund will meet the 25% Ownership Limitation because, among other reasons, a Limited Partner could misrepresent its status as a Benefit Plan Investor to the General Partner.

If the Fund’s assets were treated as being Plan Assets, the General Partner would become an ERISA fiduciary with respect to the Fund’s assets and the assets of the Fund would be subject to the prohibited transaction rules of ERISA and the Code. In addition, Fund transactions would be subject to the general prudence and fiduciary responsibility provisions of ERISA and the prohibited transaction rules of ERISA and Section 4975 of the Code. To the extent the assets of the Fund are considered Plan Assets, the General Partner intends to attempt to comply with ERISA’s fiduciary standards and the prohibited transaction rules of ERISA and Section 4975 of the Code. However, there can be no guarantee that the good faith actions of the General Partner will not result in a breach of fiduciary duty under ERISA or give rise to a non-exempt prohibited transaction. Moreover, there can be no absolute assurance that the General Partner will be able to determine whether a violation of ERISA or a non-exempt prohibited transaction has occurred or might occur or whether any corrective measures taken by the General Partner will have any negative consequences on a Plan or its fiduciary. In the event that the General Partner believes any transaction would give rise to a violation of ERISA or a non-exempt prohibited transaction, the General Partner reserves the right, upon notice to but without the consent of any Plan subject to ERISA or Section 4975 of the Code, to require the withdrawal of the Interests of any such Plan so as to avoid entering into a non-exempt prohibited transaction.

#### **Additional Fiduciary and Prohibited Transaction Considerations**

Certain prospective investors may maintain relationships with the General Partner or any of its respective affiliates under which the General Partner or any such affiliate provides investment advisory and/or management services to such prospective investor. For example, these relationships may cause the General Partner or its respective affiliates to be deemed to be a fiduciary with respect to such Plan. As a

result, an investment in the Fund by a Plan for which the General Partner or any of its respective affiliates provide investment advisory and/or management services could possibly be interpreted to raise prohibited transaction or other concerns under ERISA, the Code or other applicable law. Plan fiduciaries should make their own determination regarding whether any relationship the prospective investor (or its fiduciaries) maintains with the General Partner or any of its affiliates would constitute a prohibited use of plan assets. The General Partner should be notified in writing of all such relationships.

In addition, a prohibited transaction or other violation of ERISA or the Code or other applicable law may occur where there are circumstances indicating that (i) the investment in Interests is made or retained for the purpose of avoiding application of the fiduciary standards of ERISA or other applicable law, (ii) the investment in Interests constitutes an arrangement or understanding under which it is expected that the Fund will engage in transactions which would otherwise be prohibited if entered into directly by the Plan, (iii) the Plan, by itself, has the authority or influence to cause the Fund or the General Partner to engage in such transactions, or (iv) the person who is prohibited from transacting with the investing Plan may, but only with the aid of its affiliates and the Plan, cause the Fund or the General Partner to engage in such transactions with such person.

### **Requests for Information**

The General Partner reserves the right to request from any Limited Partner or potential Limited Partner in the Fund such information as the General Partner deems necessary to monitor Fund investments relating to Plans.

### **Reporting and Disclosure**

ERISA and the Code require that a Form 5500 (Annual Return/Report) be filed by certain Plans investing in the Fund. Plans investing in the Fund may need to include on their Form 5500 information relating to the fair market value of the Plan's investment in the Fund as of the close of the Plan's fiscal year (e.g., the plan year), and the Plan's acquisition or disposition of any Interest in the Fund. If the Plan's fiscal year differs from the Fund's fiscal year, such Plan investor may not be able to obtain valuation information on its Interests as of the last day of the Plan's fiscal year. Filing each Plan's Form 5500 is the responsibility of the plan sponsor of the Plan.

In addition to financial information, any non-exempt prohibited transaction must be reported on Form 5500 and any disqualified person involved in a non-exempt prohibited transaction is subject to self-reporting on Form 5330.

### **Special IRA Rules**

Although IRAs are not subject to ERISA's fiduciary standards, they are subject to the prohibited transaction rules of Section 4975 of the Code as well as to additional rules and regulations that could affect a decision to invest in the Fund. For example, IRA assets are required to be held by a qualified custodian and held in the name of such custodian. Potential IRA investors should take care to ensure that amounts used to fund the investor's capital contribution are not inadvertently withdrawn from the IRA's custodial account. Such capital contribution should not be effected as a taxable distribution from the IRA, giving rise to immediate taxation of the contribution amounts and possibly also significant penalties, but rather as an investment in Interests. Potential IRA investors may wish to consult with their custodians, as custodians may require certain forms of documentation in order to permit investments in private investment funds such as the Fund. In addition, IRAs are prohibited from investing in certain commingled vehicles. Thus, potential IRA investors should consider the unique rules and circumstances applicable to them before making an investment in the Fund.

### **Exempt Plans**

Certain Plans may include the assets of governmental plans or church plans. Governmental plans and non-electing church plans are generally not subject to ERISA, nor do the above-described prohibited transaction provisions apply to these types of Plans. However, such Plans are subject to prohibitions against certain related-party transactions under Section 503 of the Code, which prohibitions operate similarly to the above-described prohibited transaction rules. In addition, the fiduciary of any governmental or church plan must consider applicable state or local laws, if any, and the restrictions and duties of common law, if any, imposed upon such plan before making an investment in the Fund.

No view is expressed on whether an investment in the Fund (and any continued investment in the Fund), or the operation and administration of the Fund, is appropriate or permissible for any governmental plan or church plan under Section 503 of the Code, or under any state, county, local, or other law respecting such Plan.

**Plan fiduciaries of prospective investors should consult with their own counsel concerning the appropriateness of an investment in the Fund and the consequences under ERISA or other applicable law of an investment in the Fund.**

## **MISCELLANEOUS**

### **Office**

The office of the Fund, where its books and records are kept, is located at the office of the General Partner, 227 West Monroe, Suite 5050, Chicago, Illinois 60606.

### **Fiscal Year**

The Fund's fiscal year ends December 31st each year.

### **Auditors**

The Fund is audited by KPMG LLP.

### **Legal Counsel**

W&S served as U.S. legal and tax counsel to the General Partner in connection with the preparation of this Memorandum. W&S may advise the General Partner in matters relating to the operation of the Fund on an ongoing basis. W&S does not represent and has not represented the prospective investors or the Fund in the course of the offering of the Interests or in respect of the Fund's ongoing operations.

The representation of the General Partner by W&S is limited to the specific matters with respect to which the General Partner has retained and consulted W&S. There may exist facts and circumstances which could have a bearing on the Fund (including, without limitation, on its financial condition, operations and investments), the General Partner and/or their respective affiliates as to which W&S has been neither retained nor consulted and for which W&S expressly disclaims any responsibility. W&S does not undertake to monitor the compliance of Fund, the General Partner and/or their respective affiliates with the investment objective and strategy, the investment guidelines and other guidelines and procedures set forth in this Memorandum or the Partnership Agreement. W&S does not monitor

compliance by the Fund, the General Partner and/or their respective affiliates with applicable laws, unless such person(s) have specifically retained W&S to do so. In preparing this Memorandum, W&S relied upon information furnished to it by the General Partner, and did not investigate or verify the accuracy and completeness of information set forth in this Memorandum concerning the Fund, the General Partner or any of their respective service providers, affiliates, personnel or investments. W&S has not assumed any obligation to update this Memorandum.

### **Access to Information**

The General Partner will afford all prospective Limited Partners a reasonable opportunity to ask questions concerning the terms and conditions of this offering and will make available to any prospective Limited Partner such additional information as the General Partner may possess, or as it can acquire without unreasonable effort or expense, to verify or supplement the information set forth herein; provided, that the General Partner will not disclose any information that it deems confidential or respond to any requests for information that it deems unreasonable, and prospective Limited Partners and their advisors may be required to sign a confidentiality agreement before being given access to any information.

NO PROSPECTIVE INVESTOR SHOULD SUBSCRIBE WHO IS NOT SATISFIED THAT EITHER SUCH INVESTOR HAS AND, IF RELEVANT, HIS OR HER ADVISORS HAVE ASKED FOR AND RECEIVED ALL INFORMATION NECESSARY TO EVALUATE THE MERITS AND RISKS OF AN INVESTMENT IN THE FUND.

### **Anti-Money Laundering Regulations**

In order to comply with regulations aimed at the prevention of money laundering, the Fund will require verification of identity from all prospective investors (unless in any case the Fund is satisfied that an exemption is available under the money laundering laws and regulations of the U.S.). In the event of delay or failure by the prospective investor to produce any information required for verification purposes, the Fund may refuse to accept or return a subscription.

## **SUBSCRIPTION PROCEDURE**

### **Eligible Investors**

In order to be eligible to subscribe for an Interest, a prospective investor must be (i) an “accredited investor” and (ii)(A) a “qualified client” or (B) not a resident of the United States. Please see the Subscription Agreement accompanying this Memorandum for a detailed description of persons who fall within these categories. Investors will be required to affirm on the signature pages of the Subscription Agreement that they are, in fact, eligible to invest in the Fund.

### **Subscription Procedure**

Prospective investors who satisfy the eligibility requirements may, subject to the approval of the General Partner, subscribe for Interests by:

- (1) carefully reviewing, completing, dating and signing the Subscription Agreement;
- (2) delivering or mailing the completed Subscription Agreement to the General Partner at the following address no later than five Business Days preceding the first Business Day of the month in which the investor wishes to subscribe for an Interest;

Continental Advisors LLC  
227 West Monroe  
Suite 5050  
Chicago, Illinois  
Telephone: 312-377-3777  
Facsimile: 312-377-5028

(3) wiring the full amount of the subscription in accordance with wire instructions provided by the General Partner at the time the General Partner notifies the investor of the acceptance of the investor's subscription. Investors are advised to pay any wire transfer fees separately, so that the full amount of the wire transfer is invested in the Fund, without reduction for such fees.

Each prospective investor's investment funds must be from sources permissible under U.S. laws and regulations pertaining to money laundering, and each prospective investor should be prepared to provide the General Partner with the information necessary to comply with the General Partner's anti-money laundering policies and anti-money laundering regulations applicable to it.

To ensure proper consideration and processing of their subscriptions, prospective subscribers should ensure that all necessary documentation has been received by the General Partner at least five Business Days prior to the investment date and that subscription funds are received at the time designated by the General Partner. If subscription funds are not received at that time, the related Interest will be cancelled and the defaulting investor held liable to the Fund for any resulting losses, unless the General Partner determines to extend the time by which subscription funds must be received. In the event the General Partner exercises this discretion, it may require the Limited Partner whose subscription funds were received late to make an additional contribution in the amount of any profits that would have been experienced by the Limited Partner's subscription funds during the time they were delayed, may deduct such amount from the Limited Partner's subscription funds received and treat that amount as profits on such investment, rather than a capital contribution, or may take such other action as the General Partner deems advisable so that other investors are not prejudiced by the late contribution of funds.

The minimum initial investment amount is \$500,000, and subsequent investments may be made in \$100,000 increments. The General Partner may waive these minimums in its discretion.

The General Partner may reject any subscription in whole or in part in its sole discretion. Amounts paid by any person whose subscription is rejected will be promptly returned to that person, without interest.

Complete documentation and instructions for subscribing may be found in the Subscription Agreement.

**A POTENTIAL INVESTOR MUST CONSULT ITS OWN TAX AND FINANCIAL ADVISERS WITH RESPECT TO ITS INDIVIDUAL CIRCUMSTANCES AND THE SUITABILITY OF AN INVESTMENT IN THE FUND.**

APPENDIX I -  
PERFORMANCE OF THE FUND

Supplement dated July 2011 to the Confidential Private Placement Memorandum of Continental Partners, L.P. (the "Fund") dated December 15, 2009

This Supplement (the "Supplement") is intended to describe changes concerning the Fund since we last published the Fund's Confidential Private Placement Memorandum on December 15, 2009. This Supplement updates and amends portions of the Confidential Private Placement Memorandum related to the topic below and supersedes any previous supplements and any inconsistent information about this topic in the Confidential Private Placement Memorandum.

***I. The following information adds a Section of the Confidential Private Placement Memorandum entitled "Administrator":***

Effective June 1, 2011, the Fund and Morgan Stanley Fund Services USA LLC (the "Administrator" have entered into an agreement (the "Administration Agreement") pursuant to which the Administrator will provide the Fund with certain transfer agency and accounting services including, without limitation, computation of the Fund's net asset value, in exchange for a fee.

The Administrator bases its computations on the assets and liabilities reported to the Administrator by the Fund, its prime brokers, custodians and the General Partner and/or the Investment Manager. The Administrator will assume that these assets and liabilities represent a complete record of the Fund's investments as of the date of the Fund's accounting statements as prepared by the Administrator.

The Administrator in computing the net asset value of the Fund will use prices that are determined by the Fund in the Fund's sole discretion, and described in the Administration Agreement. In particular, the Fund may specify pricing methodologies that the Administrator shall rely upon (such as the prices of listed, liquid securities reported on exchanges and quoted by third-party vendors) or, alternatively, the Fund may require the Administrator to accept valuations of securities and other assets from the General Partner.

The prices of assets and liabilities used by the Administrator in computing the net asset value of the Fund may vary from prices that the Administrator uses in providing comparable services to other clients and from prices that affiliates of the Administrator use in connection with their customer or proprietary business. The Administrator accepts no responsibility for the accuracy of any information supplied to it by the Fund or any of its authorised representatives (including, without limitation, the General Partner or the Investment Manager) and is under no obligation to verify this information.

The Administrator is a service provider to the Fund and is not responsible for the information in, or preparation of, this Confidential Private Placement Memorandum or the activities of the Fund and therefore accepts no responsibility for any information contained in this Confidential Private Placement Memorandum. Other than its review of whether investors have affirmatively provided representations in their subscription document noting their capacity to invest in the Fund, the Administrator makes no independent review of the capacity and authority of investors to invest in the Fund. The Administrator is not an auditor and does not provide tax, accounting or auditing advice, nor is it a fiduciary to the Fund, the General Partner, or the Fund's investors. The Administrator is not responsible for monitoring the Fund's portfolio to determine whether the Fund is in compliance with the investment guidelines and restrictions set forth in this

Confidential Private Placement Memorandum or as otherwise may be applicable to the Fund or the General Partner under applicable law.

The Fund has agreed to indemnify the Administrator for any claim, liability, cost or expense asserted against the Administrator in connection with the conduct of the business of the Fund under the Administration Agreement, except to the extent of the Administrator's gross negligence, wilful misconduct or fraud. The Administration Agreement may be terminated by either party on not less than ninety (90) days prior written notice, although it may be terminated on shorter notice in certain circumstances as described in the Administration Agreement.

The Administrator is an indirect subsidiary of Morgan Stanley, a global financial services firm providing services in securities, investment management and credit services with more than 600 offices in 27 countries. The Administrator conducts its fund administration business independently from the other financial services provided by Morgan Stanley and its affiliates.

***II. The following information adds a Section of the Confidential Private Placement Memorandum entitled "Electronic Communications":***

The Fund, the Administrator or any agent of the foregoing may communicate with Investors (e.g. financial statements, performance reports, manager letters) by using a variety of means including, but not limited to, by telephone, e-mail, password protected Internet website, regular mail and facsimile. A subscriber may, at any time, notify the Partnership that it does not wish to receive electronic communication and receive paper communication instead

***III. The following information adds a Section of the Confidential Private Placement Memorandum entitled "Data Protection":***

Each subscriber and Limited Partner will be requested to acknowledge and consent that the Partnership, the Administrator and/or the General Partner may disclose to each other, to any regulatory body, to a delegate, agent or any other service provider in any jurisdiction, including those outside of the U.S. or the European Economic Area, copies of the subscriber's subscription application and any information concerning the subscriber provided by the subscriber to the Partnership, the Administrator and/or the General Partner. Any such disclosure shall not be treated as a breach of any restriction upon the disclosure of information imposed on such person by law or otherwise.