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Morrocroft Special Opportunity Fund II, LP

A Delaware Limited Partnership

General Partner:
MSO Capital Partners II, LLC

Investment Manager:
Gorelick Brothers Capital, LLC

June 4, 2010

CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM

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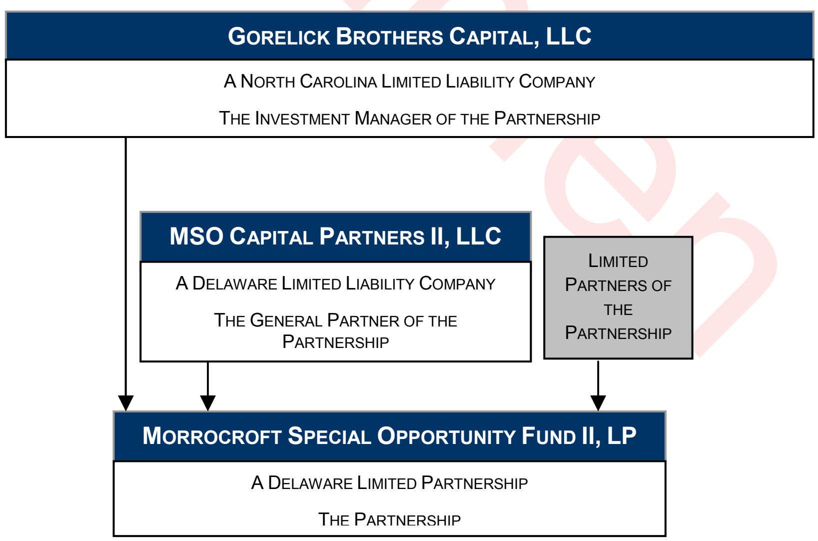
DESCRIPTION OF INTERESTS AND STRUCTURE

Morrocroft Special Opportunity Fund II, LP ("**Partnership**"), a limited partnership organized under the Delaware Revised Uniform Limited Partnership Act, is offering limited partner interests in the Partnership ("**Interests**") in a private placement pursuant to Section 4(2) of the Securities Act of 1933, as amended ("**Securities Act**"), and Regulation D promulgated thereunder. Generally, only persons who are both Accredited Investors and Qualified Purchasers (as such terms are defined under the federal securities laws) may purchase Interests.

The Partnership was formed to pool investment funds of its investors (each, a "**Limited Partner**"; and, collectively, "**Limited Partners**"; and, together with the General Partner (as defined below), "**Partners**") and invest such funds in a number of public and private investment vehicles, including hedge funds, real estate investment trusts and closed-end funds (collectively, "**Portfolio Funds**"), and separately managed accounts ("**Portfolio Accounts**"; and, together with the Portfolio Funds, the "**Portfolio Investments**") that are managed by a number of independent portfolio managers ("**Portfolio Managers**"). In industry parlance, the Partnership is a "fund-of-funds".

MSO Capital Partners II, LLC, a Delaware limited liability company ("**General Partner**"), is the general partner of the Partnership and has discretion over the management and administration of the Partnership's business. Gorelick Brothers Capital, LLC, a North Carolina limited liability company ("**Investment Manager**"), is the investment manager of the Partnership. The Investment Manager has discretionary authority to invest the Partnership's assets.

As the managers and controlling persons of the Investment Manager and the General Partner, Todd Gorelick, Israel Gorelick and Christopher Skardon (collectively, the "**Principals**") control the management and operations of the Investment Manager and the General Partner. The Principals and David Piho, the Partnership's assistant portfolio manager, are primarily responsible for managing the Partnership's portfolio.



The Partnership's minimum investment amount is $2,000,000, and the minimum additional capital contribution that will be accepted from an existing Limited Partner is $100,000. In each case, the General Partner has discretion to accept lesser amounts. An initial closing for the sale of Interests will be held on July 1, 2010 or on such other date as determined by the General Partner in its sole discretion ("**Initial Closing Date**"). The General Partner may admit additional Limited Partners and accept additional capital contributions from existing Limited Partners for a period of six months from the Initial Closing Date, generally on the first day of each month (each, a "**<u>Subsequent Closing Date</u>**") (provided that such six-month period may be extended by up to an additional six months in the sole discretion of the General Partner). The investment period of the Partnership will extend for two years from the later of the Initial Closing Date and the final Subsequent Closing Date. The Partnership will be fully liquidated and dissolved no later than seven years from the later of the Initial Closing Date and the final Subsequent Closing Date; *provided* that, upon the prior written consent of 66⅔% in interest of Limited Partners that are not affiliated with the General Partner, the term of the Partnership may be extended for one additional year. Generally, withdrawals may be made as of the last day of each quarter, upon 90 days' prior written notice to the General Partner, subject to a two-year lock-up period from the date the related Interests were purchased and certain other restrictions, and also subject to the General Partner's right to receive the Special Carried Interest (as defined herein) in connection therewith.

INVESTMENT OBJECTIVE AND STRATEGY

The Partnership's investment objective is to profit from opportunities arising from the extraordinary disruption in credit markets, especially those related to residential mortgage lending. The Partnership seeks to achieve capital appreciation by allocating the Partnership's assets among a group of Portfolio Managers that primarily invest in agency residential mortgage-backed securities ("**<u>RMBS</u>**"), non-agency RMBS, and residential whole loans. **No assurance can be given, however, that the Partnership will achieve its objective, and investment results may vary substantially over time and from period to period.**

The Investment Manager undertakes significant due diligence in evaluating a prospective Portfolio Manager. The Investment Manager selects Portfolio Managers on the basis of varying criteria, including, among other things: experience and expertise of the Portfolio Manager's principals and employees; integrity; discipline, clarity and formality of investment processes and ability to execute; attractiveness of investment strategy; track record; targeted return; quality of business operations; consistency and quality of its valuation practices; breadth, depth and adherence to risk controls; quality, frequency and timeliness of reporting; incentives and alignment of interests, including such Portfolio Manager's substantial personal financial investment alongside investors; liquidity restrictions; and differentiation from other Partnership investments. See "INVESTMENT PROGRAM".

The Investment Manager expects that some Portfolio Investments will be closed-end investment funds, which call committed capital during a prescribed investment period and will not permit the Partnership to redeem its investment but rather subsequently self-liquidate by returning capital and profit. Others will be open-end investment funds, which accept capital from investors in the discretion of the applicable Portfolio Managers, may reinvest capital with no predetermined or targeted investment period or lifetime, and allow investors to redeem capital subject to certain limits.

RISK FACTORS, CONFLICTS OF INTERESTS AND OTHER CONSIDERATIONS

Before purchasing an Interest in the Partnership, you should carefully consider various risk factors and conflicts of interest, as well as suitability requirements, restrictions on transfers and withdrawals of Interests and various legal, tax and other considerations, all of which are discussed elsewhere in this Confidential Private Placement Memorandum (this "**<u>Memorandum</u>**"). Some of these considerations are set forth in the following section, entitled "IMPORTANT GENERAL CONSIDERATIONS". **An investment in the Interests offered by the Partnership should be viewed as a non-liquid investment and involves a high degree of risk. You should consider a subscription to purchase Interests only if you have carefully read this Memorandum.**

The Partnership is not registered as an investment company and is not subject to the investment restrictions, limitations on transactions with affiliates and other provisions of the Investment Company Act of 1940, as amended ("**<u>Investment Company Act</u>**"), in reliance upon Section 3(c)(7) thereunder.

You should not construe the contents of this Memorandum as legal, tax or investment advice and, if you acquire an Interest, you will be required to make a representation to that effect. You should review the proposed investment and the legal, tax and other consequences thereof with your own professional advisors. The purchase of an Interest involves certain risks and conflicts of interest between the General Partner, the Investment Manager and the Partnership. See "RISK FACTORS AND CONFLICTS OF INTEREST". The General Partner reserves the right to refuse any subscription for any reason.

In making an investment decision, you must rely on your own examination of the Partnership and the terms of the offering of Interests, including the merits and risks involved. You and your representative(s), if any, are invited to ask questions and obtain additional information from the General Partner and/or the Partnership's administrator, JD Clark & Company ("<u>Administrator</u>"), concerning the terms and conditions of the offering, the Partnership, and any other relevant matters to the extent the General Partner and/or the Administrator possesses such information or can acquire it without unreasonable effort or expense.

Neither the U.S. Securities and Exchange Commission ("<u>SEC</u>") nor any state securities commission has passed upon the merits of participating in the Partnership, nor has the SEC or any state securities commission passed upon the adequacy or accuracy of this Memorandum. Any representation to the contrary is a criminal offense. The General Partner anticipates that: (i) the offer and sale of the Interests will be exempt from registration under the Securities Act and the various state securities laws; (ii) the Partnership will not be registered as an investment company under the Investment Company Act pursuant to an exemption provided by Section 3(c)(7) thereunder; (iii) the Investment Manager will not be registered as a commodity pool operator under the Commodity Exchange Act, as amended ("<u>CEA</u>"), based upon an exemption available under Rule 4.13(a)(4) thereunder; and (iv) neither the General Partner nor the Investment Manager will be registered as an investment adviser under the Investment Advisers Act of 1940, as amended, or under any state laws. Consequently, you will not be entitled to certain protections afforded by those statutes.

Unlike a registered commodity pool, the Partnership is not required to deliver to you a Disclosure Document (as such term is defined in the CEA) or a certified annual report.

As a Limited Partner, you may withdraw from the Partnership and receive payment for your Interests, subject to a two-year lock-up period and certain other restrictions, and also subject to the General Partner's right to receive the Special Carried Interest in connection therewith, as specified in this Memorandum and the Limited Partnership Agreement of the Partnership ("<u>Partnership Agreement</u>"), a copy of which is attached hereto as Exhibit A.

The offering of Interests is made only by delivery of a copy of this Memorandum to the person whose name appears hereon. The offering is made only to potential investors who are both Accredited Investors and Qualified Purchasers (as such terms are defined under the federal securities laws). By accepting delivery of this Memorandum, you agree not to reproduce or divulge its contents, in whole or in part, and, if you do not purchase any Interests, to return this Memorandum and the exhibits attached hereto to the General Partner or the Administrator.

Notwithstanding any provision in this Memorandum to the contrary, prospective Limited Partners (and their employees, representatives, and other agents) may disclose to any and all persons the U.S. federal income tax treatment and tax structure of the Interests offered hereby. For this purpose, "tax structure" is limited to facts relevant to the U.S. federal income tax treatment of the Interests, and does not include information relating to the identity of the issuer, its affiliates, agents or

advisors.

There is no public market for the Interests nor is any expected to develop. Even if such a market develops, no distribution, resale or transfer of an Interest will be permitted, except in accordance with the provisions of the Securities Act, the rules and regulations promulgated thereunder, any applicable state securities laws and the terms and conditions of the Partnership Agreement. Any transfer of an Interest by a Limited Partner, public or private, will require the consent of the General Partner. Accordingly, if you purchase an Interest, you will be required to represent and warrant that you have read this Memorandum and are aware of and can afford the risks of an investment in the Partnership for an indefinite period of time. You will also be required to represent that you are acquiring the Interest for your own account, for investment purposes only, and not with any intention to resell or transfer all or any part of the Interest. This investment is suitable for you only if you have adequate means of providing for your current and future needs, have no need for liquidity in this investment and can afford to lose the entire amount of your investment.

Although this Memorandum contains summaries of certain terms of certain documents pertaining to the Partnership, you should refer to the actual documents (copies of which are attached hereto or are available from the General Partner or the Administrator) for complete information concerning the rights and obligations of the parties thereto. All such summaries are qualified in their entirety by the terms of the actual documents. No person has been authorized to make any representations or furnish any information with respect to the Partnership or the Interests, other than the representations and information set forth in this Memorandum or other documents or information furnished by the General Partner or the Administrator upon request, as described above.

Certain information contained in this Memorandum constitutes "forward-looking statements", which can be identified by the use of forward-looking terminology such as "may", "will", "seek", "should", "expect", "anticipate", "project", "estimate", "intend", "continue" or "believe" or the negatives thereof or other variations thereon or comparable terminology.

No rulings have been sought from the Internal Revenue Service ("IRS") with respect to any tax matters discussed in this Memorandum. You are cautioned that the views contained herein are subject to material qualifications and subject to possible changes in regulations by the IRS or by the U.S. Congress in existing tax statutes or in the interpretation of existing statutes and regulations.

The information contained herein is current only as of the date hereof, and you should not, under any circumstances, assume that there has been any change in the matters discussed herein since the date hereof.

The following summary is qualified in its entirety by other information contained elsewhere in this Confidential Private Placement Memorandum (this "**Memorandum**") and by the Limited Partnership Agreement ("**Partnership Agreement**") of the Partnership (as defined below), a copy of which is attached to this Memorandum as Exhibit A. You should read this entire Memorandum and the Partnership Agreement carefully before making any investment decision regarding the Partnership and should pay particular attention to the information under the heading "RISK FACTORS AND CONFLICTS OF INTEREST". In addition, you should consult your own advisors in order to understand fully the consequences of an investment in the Partnership.

The Partnership

Morrocroft Special Opportunity Fund II, LP, a Delaware limited partnership ("**Partnership**"), was formed to pool investment funds of its investors (each, a "**Limited Partner**"; and, collectively, "**Limited Partners**"; and, together with the General Partner (as defined below), "**Partners**") and invest such funds in a number of public and private investment vehicles, including hedge funds, real estate investment trusts ("**REITs**") and closed-end funds (collectively, "**Portfolio Funds**"), and separately managed accounts ("**Portfolio Accounts**"; and, together with the Portfolio Funds, the "**Portfolio Investments**") that are managed by a number of independent portfolio managers ("**Portfolio Managers**"). In industry parlance, the Partnership is a "fund-of-funds". See "INVESTMENT PROGRAM".

Management

MSO Capital Partners II, LLC, a Delaware limited liability company ("**General Partner**"), is the general partner of the Partnership and has discretion over the management and administration of the Partnership's business. Gorelick Brothers Capital, LLC, a North Carolina limited liability company ("**Investment Manager**"), is the investment manager of the Partnership. The Investment Manager has discretionary authority to invest the Partnership's assets.

As the managers and controlling persons of the Investment Manager and the General Partner, Todd Gorelick, Israel Gorelick and Christopher Skardon (collectively, the "**Principals**") control the management and operations of the Investment Manager and the General Partner. The Principals and David Piho, the Partnership's assistant portfolio manager, are primarily responsible for managing the Partnership's portfolio. See "MANAGEMENT".

The Offering

The Partnership is offering limited partner interests in the Partnership ("**Interests**") to persons who are both Accredited Investors (as such term is defined in Rule 501 of Regulation D under the Securities Act of 1933, as amended ("**Securities Act**")) and Qualified Purchasers (as such term is defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended ("**Investment Company Act**")). Interests represent a percentage interest in the Partnership's net assets.

The Partnership may establish and offer separate series and/or classes of Interests (including those with different investment programs and asset pools) from time to time and at any time, as determined by the General Partner, in its sole discretion, with such rights and privileges as the General Partner may determine and without notice to and without obtaining any approval of the Limited Partners.

Marketing Fees. The General Partner and/or the Investment Manager may sell Interests through broker-dealers, placement agents and other persons and pay a marketing fee or commission in connection with such activities, including ongoing payments, at the General Partner's or the Investment Manager's own expense, including arrangements with such effect in the form of fee-sharing.

How to Subscribe

Attached as Exhibit B to this Memorandum are the subscription documents and instructions for subscribing ("**Subscription Documents**"). In order to subscribe for Interests, you must complete the Subscription Documents and return them to the Partnership's administrator, JD Clark & Company ("**Administrator**"). Payment must be made by wire transfer of immediately available funds. You must pay 100% of your investment at the time you subscribe. To ensure compliance with applicable laws, regulations and other requirements relating to money laundering, the Administrator and/or the General Partner may require additional information to verify the identity of any person who subscribes for an Interest in the Partnership.

If the General Partner consents to a Limited Partner's contribution of securities (and/or other investments) to the Partnership, the Partnership may, in the General Partner's discretion, assess a special charge against such Limited Partner equal to the actual costs incurred by the Partnership in connection with accepting such contributed securities (and/or other investments), including the costs of liquidating, or otherwise adjusting the Partnership's portfolio to accommodate, such securities (and/or other investments). Such special charge will be assessed as of such dates deemed appropriate by the General Partner. Any investor who contributes securities (and/or other investments) in lieu of cash to the Partnership should consult with such person's counsel or advisors as to the tax effect of such contribution.

Eligible Investors and Suitability

In order to invest in the Partnership, you must meet certain minimum suitability requirements, including qualifying as both an Accredited Investor under the Securities Act and as a Qualified Purchaser under the Investment Company Act. The Subscription Documents set forth in detail the definitions of Accredited Investor and Qualified Purchaser. You must check the appropriate places in the Subscription Documents to represent to the Partnership that you are both an Accredited Investor and a Qualified Purchaser in order to be able to purchase Interests. The General Partner, in its sole discretion, can accept or reject any initial subscriptions from prospective Limited Partners and additional capital contributions from existing Limited Partners for any reason or for no reason.

The eligibility standards referred to herein represent minimum eligibility requirements for persons seeking to invest in the Partnership, and, accordingly, just because you satisfy such standards does not necessarily mean that the Interests are a suitable investment for you.

Entities subject to the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), and other tax-exempt entities may purchase Interests. However, investment in the Partnership by such entities requires special consideration. Trustees or administrators of such entities should consult their own legal and tax advisors. See "ERISA CONSIDERATIONS".

Minimum Investment

The minimum initial investment that will be accepted from a new Limited Partner is $2,000,000, and the minimum additional capital contribution that will be accepted from an existing Limited Partner is $100,000. In each case, the General Partner has discretion to accept lesser amounts. Additional capital contributions may only be made in increments of $100,000. Limited Partners are not required to make any additional capital contributions to the Partnership. There is no minimum or maximum aggregate amount of funds that must or may be contributed by all Partners to the Partnership.

The Principals and their affiliates intend to invest a minimum of $1,000,000 in the Partnership.

Admission of Limited Partners; Closings

An initial closing for the sale of Interests will be held on July 1, 2010 or on such other date as determined by the General Partner in its sole discretion ("**Initial Closing Date**"). The General Partner may admit additional Limited Partners and accept additional capital contributions from existing Limited Partners (such additional Limited Partners, together with such existing Limited Partners to the extent of their additional capital contributions, in each case, with respect to a particular Subsequent Closing Date (as defined below), "**New Partners**") for a period of six months from the Initial Closing Date, generally on the first day of each month (each, a "**Subsequent Closing Date**") (provided that such six-month period may be extended by up to an additional six months in the sole discretion of the General Partner).

The Partners admitted on the Initial Closing Date will have a *pro rata* interest in the Partnership's net assets based on their respective capital contributions. Each New

Partner admitted on a Subsequent Closing Date will have a percentage interest in all of the Partnership's net assets--including investments (including Illiquid Investments (as defined below)) held by the Partnership as of the applicable Subsequent Closing Date)--calculated as follows: (A) (x) the capital contribution of such New Partner minus (y) such New Partner's *pro rata* share of the Partnership's organizational, initial offering and operating expenses incurred by the Partnership prior to the applicable Subsequent Closing Date (based on the Partners' respective capital contributions) divided by (B) the Net Asset Value (as defined below) of the Partnership as of the applicable Subsequent Closing Date (inclusive of the capital contribution of the New Partner). Thus, a New Partner will not participate in any appreciation or depreciation in the value of the Partnership's investments in respect of the period prior to the applicable Subsequent Closing Date.

Investment Period

The investment period of the Partnership (the "**Investment Period**") will extend for two years from the later of the Initial Closing Date and the final Subsequent Closing Date. Following the Investment Period, the Investment Manager will not make any new investments for the Partnership, other than those that have been committed to during the Investment Period or are in process as of the end of the Investment Period, which shall close within six months of the end of the Investment Period.

Term

The Partnership will be fully liquidated and dissolved no later than seven years from the later of the Initial Closing Date and the final Subsequent Closing Date; *provided* that, upon the prior written consent of 66⅔% in interest of Limited Partners that are not affiliated with the General Partner, the term of the Partnership may be extended for one additional year.

Cash Held for Investment

The Partnership will establish memorandum accounts for cash received from subscriptions ("**Cash Held for Investment**") and will reduce the balance of those accounts as cash is invested in Portfolio Investments or used to pay fees or Partnership expenses. Cash will be held by a global custody bank selected by the General Partner ("**Custodian**") and invested in short-term interest-bearing accounts. See "INVESTMENT PROGRAM".

Management Fee to the Investment Manager

The Partnership has entered into an investment management agreement ("**Investment Management Agreement**") with the Investment Manager to manage the Partnership's portfolio. In consideration for the services provided pursuant to the Investment Management Agreement, the Investment Manager will receive a monthly management fee ("**Management Fee**") equal to 0.083% (approximately 1.0% annually) of each Limited Partner's share of the Partnership's Net Asset Value (excluding Cash Held for Investment). The Management Fee will be calculated and payable to the Investment Manager monthly, in advance, as of the first day of each month. A *pro rata* Management Fee will be charged to Limited Partners on any amounts accepted by the General Partner during a month. No part of the Management Fee will be refunded in the event that a Limited Partner withdraws, whether voluntarily or involuntarily, all or any of the value in such Limited Partner's capital account during any month.

Management Fees will be payable with respect to a Limited Partner's *pro rata* share of the value of any Illiquid Investment held in a Side Pocket Account carried at its fair value (which may be at, above or below cost), as determined in accordance with "— Determination of Net Asset Value" below. See also "— Side Pocket Accounts; Treatment of Management Fee and Expenses" for additional information regarding the payment of Management Fees with respect to Illiquid Investments.

The Investment Manager, in its sole discretion, may waive or reduce the Management Fee with respect to one or more Limited Partners (including affiliates of the Investment Manager and/or the General Partner) for any period of time and from time to time, or agree to apply a different Management Fee for any Limited Partner (all such arrangements in the form of a rebate or otherwise).

Distributions; Carried Interest to the General Partner

(a) Within 60 days of each calendar quarter-end, or more frequently in the discretion of the General Partner, the Partnership will distribute: (i) all cash realized from Illiquid Investments held in Side Pocket Accounts (as such terms are defined herein); and (ii) subsequent to the Investment Period (or earlier in the discretion of the General Partner),

(A) remaining Cash Held for Investment, if any, and (B) cash realized from any Portfolio Investments; less (iii) reserves held for expenses, fees and other liabilities of the Partnership (collectively, "**Distributable Amounts**", which term, for the avoidance of doubt, does not include distributions that the General Partner is required to make in response to a Limited Partner's voluntary withdrawal request).

Distributable Amounts shall be initially apportioned to the Partners in proportion to their respective interests therein. Each Limited Partner's allocable share of Distributable Amounts will then be distributed to such Limited Partner and the General Partner in the following order of priority:

(i) **Return of Capital.** First, 100% to such Limited Partner until (A) the cumulative distributions to such Limited Partner pursuant to this paragraph (a) *equal* (B) the cumulative capital contributions of such Limited Partner to the Partnership minus any Designated Capital (as defined below) previously withdrawn pursuant to paragraph (b) below (the "**Adjusted Capital Base**");

(ii) **Preferred Return**. Second, 100% to such Limited Partner until the cumulative distributions to such Limited Partner pursuant to this paragraph (a) in excess of its Adjusted Capital Base equal a preferred return on (x) its Adjusted Capital Base *minus* (y) any returned capital the preferred return on which has already been taken into account pursuant to paragraph (b)(2)(x)(B) below, at the rate of 6% *per annum*, compounded annually, which will begin to accrue on capital contributions from the date on which such capital contributions are made, but which shall not accrue on Cash Held for Investment ("**Preferred Rate of Return**");

(iii) **General Partner Catch-Up.** Third, 100% to the General Partner until the General Partner has received with respect to such Limited Partner 10% of the sum of all distributions made to (x) such Limited Partner pursuant to sub-paragraph (ii) and (y) the General Partner with respect to such Limited Partner pursuant to this sub-paragraph (iii); and

(iv) **90%/10% Split.** Thereafter, (x) 90% to such Limited Partner and (y) 10% to the General Partner (such amount set forth in this clause (y), together with the amount set forth in sub-paragraph (iii) above, the "**Regular Carried Interest**").

Notwithstanding the foregoing priorities, the General Partner shall be entitled to receive periodic cash distributions ("**Tax Distributions**") in amounts sufficient (when added to any Regular Carried Interest distributions and prior Tax Distributions) to pay federal, state and local income tax attributable to income allocated to the General Partner for tax purposes with respect to the Regular Carried Interest. Once any Tax Distributions have been made, subsequent Regular Carried Interest distributions to the General Partner will be reduced to the extent of prior Tax Distributions.

(b) In the event that a Limited Partner at any time elects to voluntarily withdraw an amount (the "**Designated Amount**") from its capital account (which term, for purposes of any voluntary withdrawal, shall exclude the effect of any "forced allocation" to the General Partner as a result of the Regular Carried Interest, such that the capital account represents the Limited Partner's proportionate interest in the net assets of the Partnership before giving effect to any Regular Carried Interest) (excluding any Side Pocket Accounts) (such Limited Partner's "**Regular Capital Account**"), then: (1) it shall be assumed that the Limited Partner is requesting a *pro rata* withdrawal of its originally contributed capital into such Regular Capital Account (the "**Designated Capital**") and profits thereon (the "**Designated Profits**"); and (2) the Designated Amount will be distributed as follows: (x) to the General Partner, an amount equal to 10% of the Designated Profits (*provided* that in no event shall such distribution cause the rate of return on (A) the Designated Capital and (B) any distributions previously made pursuant to paragraph (a)(i) ("Return of Capital") above (which shall be deemed a return of capital from the Regular Capital Account), to be less than the Preferred Rate of Return, and the amount otherwise distributable to the General Partner pursuant to this clause (x) shall be reduced accordingly) (the "**Special Carried Interest**", and together with the Regular Carried Interest, the "**Carried Interest**"); and (y) the remainder to the Limited Partner.

By way of summary, paragraph (a) above provides the general framework whereby the General Partner is entitled to distributions of performance compensation (specifically, the Regular Carried Interest) only after the applicable Limited Partner has received a return of its entire capital contribution to the Partnership and a preferred return. Paragraph (b) above describes an exception whereby the distribution of performance compensation to the General Partner (specifically, the Special Carried Interest) is accelerated upon and with respect to any voluntary withdrawal of profits by a Limited Partner. See Annex 1 attached hereto for calculation of the Carried Interest under various hypothetical scenarios.

(c) In no event shall the General Partner be required to return any Carried Interest received by it pursuant to the above provisions.

(d) The General Partner, in its sole discretion, may waive or reduce the Carried Interest with respect to one or more Limited Partners (including affiliates of the Investment Manager and/or the General Partner) for any period of time and from time to time.

Allocation of Profit and Loss

The Partnership will establish and maintain a capital account for each Partner. All items of income, gain, loss and deduction will be allocated to the Partners' capital accounts so that if the Partnership were liquidated, each Partner would receive distributions in accordance with the provisions outlined above.

Expenses

Organizational and Initial Offering Expenses. The Partnership will pay, or reimburse the General Partner, the Investment Manager and/or their respective affiliates, for all organizational and initial offering expenses of the Partnership, including, but not limited to, legal and accounting fees, printing and mailing expenses and government filing fees (including blue sky filing fees). The Partnership's organizational and initial offering expenses may be, for accounting purposes, amortized by the Partnership for up to 60 months from the date the Partnership commences operations. Amortization of such expenses is a divergence from U.S. generally accepted accounting principles ("**GAAP**"). In certain circumstances, this divergence may result in a qualification of the Partnership's annual audited financial statements. In such instances, the Partnership may elect to (i) avoid the qualification by recognizing the unamortized expenses or (ii) make GAAP-conforming changes for financial reporting purposes, but amortize expenses for purposes of calculating the Partnership's Net Asset Value (resulting in a divergence in fiscal year-end Net Asset Values reported in the Partnership's financial statements, and as otherwise applicable under the provisions of the Partnership Agreement). If the Partnership amortizes such expenses and is then terminated within 60 months of its commencement, any unamortized expenses will be recognized. If a Limited Partner makes a withdrawal prior to the end of the period during which the Partnership is amortizing expenses, the Partnership may, but is not required to, accelerate a proportionate share of the unamortized expenses based upon the amount being withdrawn and reduce withdrawal proceeds accordingly.

See also "— Admission of Limited Partners; Closings" above for additional information regarding the apportionment of organizational and initial offering expenses to Limited Partners admitted on a Subsequent Closing Date.

Operating Expenses. The Partnership will pay, or reimburse the General Partner, the Investment Manager and/or their respective affiliates, for (i) all expenses incurred in connection with the ongoing offer and sale of Interests, including, but not limited to, printing of this Memorandum and exhibits and documentation of performance and the admission of Limited Partners, (ii) all operating expenses of the Partnership, such as tax preparation fees, governmental fees and taxes, fees to the Administrator and the Custodian, communications with Limited Partners, and ongoing legal, accounting, auditing, bookkeeping, consulting and other professional fees and expenses, (iii) all Partnership research, trading and investment-related costs and expenses (e.g., brokerage commissions, research and other fees paid in connection with the purchase or sale of Portfolio Investments), (iv) reasonable out-of-pocket expenses paid to independent third parties for verification of employment, education and credentials of prospective Portfolio Managers and public records searches and similar background investigation services performed in respect thereof, (v) liability insurance for the General Partner, the Investment Manager and their members, officers, directors and employees (including, but not limited to, errors and omissions and directors and officers liability insurance), if procured, and (vi) all fees and other expenses incurred in connection with the investigation, prosecution or defense (including costs of settlement and/or appeal) of any claims (made or threatened), assertion of rights or pursuit of remedies, by or against the Partnership, including, without limitation, professional and other advisory and consulting expenses and travel expenses.

The General Partner, in its sole discretion, may allocate the Partnership's operating expenses *pro rata* among the Limited Partners or otherwise if and to the extent that such expenses are, in the reasonable discretion of the General Partner, solely or disproportionately attributable to one or more particular Limited Partners.

Each of the General Partner, the Investment Manager or any of their respective affiliates, in its sole discretion, may from time to time pay for any of the foregoing Partnership expenses. Any such person may elect to be reimbursed for such expenses, or to waive its right to reimbursement for any such expenses, as well as terminate any such voluntary payment or waiver of reimbursement.

The Partnership will also bear its *pro rata* share of the expenses of each Portfolio Investment, as well as the management fees and performance-based fees or allocations charged by the Portfolio Managers of such Portfolio Investment.

See also "— Admission of Limited Partners; Closings" above for additional information regarding the apportionment of operating expenses to Limited Partners admitted on a Subsequent Closing Date.

General Partner's and Investment Manager's Expenses. The General Partner and the Investment Manager will pay for their own general operating and overhead expenses associated with providing the management and investment management services required under the Partnership Agreement and the Investment Management Agreement, respectively. These expenses include all expenses incurred by the General Partner and the Investment Manager in providing for their normal operating overhead, including, but not limited to, the cost of providing relevant support and administrative services (*e.g.*, employee compensation and benefits, rent, office equipment, insurance (other than as expressly set forth above), utilities, telephone, secretarial and bookkeeping services, etc.), but not including any Partnership operating expenses described above.

Withdrawals

Limited Partner Withdrawals. Subject to the Lock-Up Period discussed below and the other withdrawal restrictions described herein and in the Partnership Agreement, a Limited Partner may withdraw a minimum of $100,000 from its capital account (which term, for purposes of any voluntary withdrawal, shall exclude the effect of any "forced allocation" to the General Partner as a result of the Regular Carried Interest, such that the capital account represents the Limited Partner's proportionate interest in the net assets of the Partnership before giving effect to any Regular Carried Interest) as of the last day of any calendar quarter (each such date, together with any other date on which the General Partner permits a withdrawal in accordance with "— Waiver" below, a "**Withdrawal Date**"), upon at least 90 days' prior written notice to the Administrator. Withdrawals may only be made in increments of $100,000. All withdrawals will be deemed made prior to the commencement of the following quarter.

If the General Partner, in accordance with "— Waiver" below, permits a Limited Partner to withdraw capital other than on a regularly scheduled Withdrawal Date, the General Partner may impose an administrative fee on such Limited Partner to cover the legal, accounting, administrative, brokerage, and any other costs and expenses associated with such withdrawal. Such fee will be deducted from the withdrawal proceeds of such withdrawing Limited Partner and be payable to the Partnership. The Partnership has the right to pay cash or in-kind, or a combination of both, to a Limited Partner that makes a withdrawal from such Limited Partner's capital account.

Notwithstanding the foregoing, a Limited Partner may withdraw a maximum of one-fifth of its capital account balance (determined as of such Withdrawal Date and excluding any amount held in a Side Pocket Account) as of a Withdrawal Date, up to one-fourth of the remainder as of any subsequent Withdrawal Date, up to one-third of the remainder as of any subsequent Withdrawal Date, up to one-half of the remainder as of any subsequent Withdrawal Date, and up to the remainder as of any subsequent Withdrawal Date. In the interim, amounts remaining in the capital account will be subject to the performance of the Partnership.

Lock-Up Period. Each capital contribution by a Limited Partner to purchase Interests shall be subject to a two-year lock-up period ("**Lock-Up Period**") during which such capital (including any earnings thereon) may not be withdrawn from the Partnership. If a Limited Partner purchases Interests on multiple dates, each tranche of Interests will be tracked separately for purposes of the Lock-Up Period and withdrawals will be deemed made from Interests purchased on the earliest date.

Payments. A Limited Partner who requests a withdrawal of capital that constitutes, together with prior withdrawals within any fiscal year, less than 90% of the value of such Limited Partner's capital account (other than any amount held in a Side Pocket Account), will be paid within 45 days after the applicable Withdrawal Date. A Limited Partner who is withdrawing 90% or more of the value of such Limited Partner's capital account in the aggregate (other than any amount held in a Side Pocket Account) within any fiscal year will be paid 90% of an amount estimated by the General Partner to be the amount to which the withdrawing Limited Partner is entitled (calculated on the basis of unaudited data) within 45 days after the applicable Withdrawal Date. The balance of the amount payable upon such withdrawal will be paid, without interest, within approximately 30 days after completion of the audited financial statements for the fiscal year in which the withdrawal occurs. Upon withdrawal of all of the capital in its capital account, a Limited Partner will be deemed to have withdrawn from the Partnership and, upon notice of such withdrawal, a Limited Partner will not be entitled to exercise any voting rights afforded to Limited Partners under the Partnership Agreement. This paragraph is subject to all other restrictions on withdrawals described herein.

Side Pocket Accounts. A Limited Partner may not withdraw any of the amounts in its capital account that are attributable to the value of an Illiquid Investment held in a Side Pocket Account until such time that such Illiquid Investment (or the sales proceeds thereof) is reallocated to such Limited Partner's capital account. At the sole discretion of the Investment Manager, an Illiquid Investment may be held in a Side Pocket Account until the occurrence of a Realization Event. See also "— Side Pocket Accounts; Treatment of Management Fee and Expenses".

Required Withdrawals. The General Partner may, in its sole discretion, require a Limited Partner to withdraw any or all of the value of the Limited Partner's capital account on not less than five days' written notice for any reason or no reason.

Reserves. The General Partner may cause the Partnership to establish such reserves as it deems necessary for contingent Partnership liabilities, including estimated expenses in connection therewith, which could reduce the amount of a distribution upon withdrawal.

Limitations on Withdrawals. The Partnership may suspend (or postpone) withdrawals, calculations of Net Asset Value and/or payments upon any withdrawals (in whole or in part) from capital accounts: (i) during the existence of any state of affairs which, in the opinion of the General Partner, makes the disposition of the Partnership's investments impractical or prejudicial to the Partners, or where such state of affairs, in the opinion of the General Partner, makes the determination of the price or value of the Partnership's investments impractical or prejudicial to the Partners; (ii) where any withdrawals or distributions, in the opinion of the General Partner, would result in the violation of any applicable law or regulation, or adverse tax or regulatory implications; or (iii) for such other reasons or for such other periods as the General Partner may in good faith determine. All Limited Partners will be notified in writing of any such suspension and the termination thereof. Following any such suspension, a withdrawal request made by a Limited Partner prior to such suspension will be effected as of the first Withdrawal Date following the recommencement of withdrawals (subject to all other restrictions on withdrawals contained herein).

Special Withdrawal Right. Limited Partners will have the right to withdraw all of their Interests from the Partnership in the event that two of the three Principals die, become legally incompetent or are disabled (i.e., unable by reason of disease, illness or injury to perform their functions with respect to the Partnership for 90 consecutive days), or otherwise cease to be active in the affairs of the Partnership for 90 consecutive days. The Administrator will notify the Limited Partners as soon as practicable after the occurrence of any of the foregoing events, and such special withdrawal right will be exercisable by delivery of a withdrawal notice to the Administrator by the 30th day after the Limited Partners are notified (the "**Notice Date**"). Any such withdrawal will be effective at the end of the first full calendar month after the Notice Date. A Limited Partner exercising such special withdrawal right will be paid 90% of its estimated withdrawal proceeds (determined as of the end of such calendar month, and excluding amounts held in Side Pocket Accounts) promptly following the end of such calendar month. Within 15 days after the completion of a special audit of the Partnership following the end of such calendar month, the balance of such Limited Partner's withdrawal proceeds (if any) will be paid, without interest. For the avoidance of doubt, withdrawals effected pursuant to this special withdrawal right will not be subject to the withdrawal maximums described above under "— Limited Partner Withdrawals". Limited Partners will be paid on amounts held in Side Pocket Accounts as soon as practicable after the orderly liquidation of the related Illiquid Investments.

Other Limitations on Withdrawals. In addition to the above limitations on withdrawals, all withdrawals by Limited Partners will be subject to any limitations on withdrawals imposed by the Portfolio Investments, as applicable.

Waiver. The General Partner may waive or modify any of the terms relating to withdrawals, including notice period, minimum amounts and the Lock-Up Period, for all or any of the Limited Partners without notice to the other Limited Partners, provided that any such waiver or modification would not be adverse to the interests of the other Limited Partners.

Special Carried Interest. Any withdrawal by a Limited Partner in accordance with the above provisions shall be subject to the General Partner's right to receive the Special Carried Interest described above under "— Distributions; Carried Interest to the General Partner".

Withdrawals, Resignation and Transfers by the General Partner, the Investment Manager and their Affiliates

Although the Principals and their affiliates intend to invest a minimum of $1,000,000 in the Partnership, neither the Partnership Agreement nor the Investment Management Agreement requires the General Partner, the Investment Manager, the Principals or any of their respective principals and affiliates to maintain any minimum capital account balance. Notwithstanding the foregoing, the General Partner, the Investment Manager and their respective principals and affiliates will be subject to the same restrictions on withdrawal as the Limited Partners.

The General Partner may resign as the general partner of the Partnership upon 30 days' written notice to the Limited Partners. Upon such resignation of the General Partner, or upon its bankruptcy or dissolution, the remaining Limited Partners have the right to appoint a substitute general partner; otherwise, the Partnership will be dissolved pursuant to the procedures set forth in the Partnership Agreement. The Partnership Agreement permits the General Partner to appoint additional general partners and to transfer its general partner interest to an affiliate of the General Partner without the consent of Limited Partners.

Determination of Net Asset Value

The net asset value ("**Net Asset Value**") of the Partnership is determined in accordance with the Partnership Agreement and is generally equal to the amount by which the value of the Partnership's assets exceeds the amount of its liabilities. Net Asset Value determinations are made by the Administrator, based on valuations provided by the

General Partner or the Investment Manager, as of the end of each month (or other period, as the case may be) in accordance with GAAP, consistently applied (except that the Partnership's organizational and initial offering expenses may be amortized for up to 60 months).

In the case of investments in Portfolio Investments, which investments are expected to constitute most of the Partnership's assets, the Net Asset Value calculation provided by the relevant Portfolio Managers (or any affiliates or service providers thereof) of such Portfolio Investments will generally be used in determining the Partnership's Net Asset Value. None of the General Partner, the Investment Manager or any of their respective affiliates will be responsible for calculating the Net Asset Value of the Portfolio Investments or for verifying the accuracy and completeness of any such values received. Notwithstanding the foregoing, the Administrator will value any Portfolio Investment that is a publicly-traded security. All other assets of the Partnership, and all assets in Side Pocket Accounts, will be valued as the General Partner may reasonably determine in consultation with such industry professionals and other third parties, if any, as the General Partner deems appropriate. Absent bad faith or manifest error, all Net Asset Value determinations pursuant to the Partnership Agreement are conclusive and binding as to all Partners.

Side Pocket Accounts; Treatment of Management Fee and Expenses

The Investment Manager may designate that certain investments be carried in one or more separate memorandum accounts (each, a "**Side Pocket Account**") for such period of time as the Investment Manager determines. Such investments may include, without limitation: (i) an investment into a Portfolio Investment with an extended lock-up period and/or that invests in illiquid assets; (ii) that portion of an investment in a Portfolio Investment that is attributable to side pocket accounts designated by the Portfolio Manager of such Portfolio Investment (which may be designated with respect to assets that are subject to legal or contractual restrictions on transferability, or that the Portfolio Manager believes either lack a readily assessable market value (without impairing the value of such investment) or should be held until the resolution of a special event or circumstance); and (iii) investments in Portfolio Investments that are in receivership or liquidation or are subject to regulatory inquiry or scandal (related to fraud or otherwise), or whose interests are subject to extraordinary restrictions on withdrawal, or the value of which is in dispute (each, as designated by the Investment Manager, along with follow-on investments, if any, an "**Illiquid Investment**").

The Investment Manager may allocate up to 40% of the Partnership's Net Asset Value (measured at the time that the applicable Illiquid Investments are placed in the Side Pocket Account) to Side Pocket Accounts. Illiquid Investments held in a Side Pocket Account will be carried at their fair value (which may be at, above or below cost), as determined in accordance with "— Determination of Net Asset Value" above. At the sole discretion of the Investment Manager, an Illiquid Investment may be held in a Side Pocket Account until the occurrence of a Realization Event. Upon a Realization Event, such Illiquid Investment (or the sales proceeds thereof) will be reallocated, *pro rata*, from the Side Pocket Account to the capital accounts of the Partners in accordance with their respective interests in such Side Pocket Account. Until such reallocation, a Limited Partner may not withdraw any of the amounts in its capital account that are attributable to the value of Illiquid Investments held in a Side Pocket Account. Upon such reallocation, a Limited Partner that has withdrawn all of its capital from the Partnership other than the capital attributable to such Side Pocket Account will receive an amount equal to its interest in such Side Pocket Account (net of (i) any accrued Management Fees, (ii) its *pro rata* share of any Partnership expenses, and (iii) the Carried Interest, if any, with respect thereto) within approximately 60 days after such reallocation; *provided* that the payment of such amount will be subject to the 10% holdback as set forth above under "— Withdrawals — Payments".

The Investment Manager may determine that a "**Realization Event**" has occurred when (1) the Portfolio Manager of a Portfolio Investment elects to release the underlying investments from the side pocket account of such Portfolio Investment (which may occur, for example, when such investments become liquid or are sold or otherwise disposed of), (2) the lock-up associated with the Portfolio Investment expires for the Partnership, and it is able to withdraw its capital from the Portfolio Investment, or (3) otherwise as the

Investment Manager may determine in its sole discretion.

In addition, with respect to a Limited Partner that has withdrawn all of its capital from the Partnership other than the capital attributable to a Side Pocket Account, the Partnership may reserve a portion of such withdrawing Limited Partner's withdrawal proceeds in order to cover the estimated accrued Management Fees and expenses attributable to the Limited Partner's interests in such Side Pocket Account based on the Investment Manager's estimate of the time period that the Illiquid Investments held in the Side Pocket Account will remain in the Side Pocket Account. If any reserved amounts remain at the time of the Realization Event with respect to the Illiquid Investment, the Partnership will pay the remaining unused reserved amounts to the Limited Partner. If the Partnership uses all of the reserved amounts to pay Management Fees or expenses prior to the Realization Event with respect to the Illiquid Investment, then, at the time of such Realization Event, there will be deducted and paid any accrued but unpaid Management Fees and expenses related to such Illiquid Investment computed through the date of the Realization Event; *provided, however*, that the Investment Manager may elect to invoice a fully withdrawing Limited Partner for such accrued but unpaid Management Fees on a monthly basis.

Limited Partners admitted or making additional capital contributions on a Subsequent Closing Date will participate in Illiquid Investments that were placed in a Side Pocket Account prior thereto, as set forth above under "— Admission of Limited Partners; Closings".

Other Memorandum Accounts

In addition to the foregoing with respect to Side Pocket Accounts, to the extent that certain Limited Partners are restricted from participating in any other transactions of the Partnership by applicable laws or regulations, or for any other reason determined by the General Partner in good faith, the General Partner may, in its discretion, establish one or more separate memorandum accounts to hold such investments and isolate ownership away from such restricted Limited Partners. Only those Limited Partners who the General Partner determines are eligible will participate in such accounts.

Side Letters

The Partnership, the General Partner and/or the Investment Manager may from time to time enter into side letters or other similar agreements (collectively, "**Side Letters**") with one or more Limited Partners that provide such Limited Partner(s) with additional and/or different rights (including, without limitation, with respect to the Management Fee, the Carried Interest, access to information and minimum investment amounts) than such Limited Partner(s) have pursuant to this Memorandum and the Partnership Agreement (provided that no liquidity preferences will be granted to any Limited Partner that would be adverse to the interests of the other Limited Partners). Neither the General Partner nor the Investment Manager will be required to notify any or all of the other Limited Partners of any such written agreements or any of the rights and/or terms or provisions thereof, nor will the General Partner or the Investment Manager be required to offer such additional and/or different rights and/or terms to any or all of the other Limited Partners.

Reports to Limited Partners

Each Limited Partner will receive the following: (i) annual financial statements of the Partnership audited by an independent certified public accounting firm; (ii) a monthly statement of its capital account; (iii) a report (no less frequent than quarterly) from the General Partner or the Investment Manager discussing the results of the Partnership; (iv) copies of such Limited Partner's Schedule K-1 to the Partnership's tax returns; and (v) other reports, as determined by the General Partner in its sole discretion. The Partnership's financial statements will be prepared in accordance with GAAP. The Partnership will bear all fees incurred in providing such tax returns and reports. The Partnership will use commercially reasonable efforts to provide Limited Partners with the Partnership's annual financial statements within 180 days after the end of each fiscal year (subject to timely receipt of necessary information from the Portfolio Managers on the Portfolio Investments).

The General Partner and/or the Investment Manager may agree to provide certain Limited Partners with additional information on the underlying investments of the Partnership, as well as heightened access to the General Partner, the Investment Manager and their respective employees for relevant information.

Borrowings

To the extent deemed appropriate by the General Partner or the Investment Manager, the Partnership may enter into one or more credit facilities or other similar arrangements for short-term cash management purposes, including the payment of Partnership expenses. Borrowings may be secured by the Partnership's assets, including its investments.

Transferability of Interests

As a Limited Partner, you may not assign or transfer your Interest (except by operation of law) without the consent of the General Partner, which consent may be given or withheld in its sole discretion. No transfer of an Interest by a Limited Partner will be permitted if it would result in the termination of the Partnership for U.S. federal income tax purposes. Transfers of Interests are subject to other restrictions set forth in the Partnership Agreement, including compliance with ERISA and federal and state securities laws.

Due to these limitations on transferability, Limited Partners may be required to hold their Interests indefinitely, unless they withdraw from the Partnership in accordance with the provisions set forth in the Partnership Agreement.

Distributions Upon Termination of the Partnership

Upon the termination of the Partnership (as further described in the Partnership Agreement), the assets of the Partnership will be liquidated (or held for distribution in-kind) and the proceeds of liquidation and assets held for distribution in-kind will be used to pay off known liabilities and establish reserves for contingent liabilities and expenses of liquidation, and any remaining balance will be applied and distributed in accordance with the provisions of "—Distributions; Carried Interest to the General Partner" above.

Bank Holding Companies

Limited Partners that are Bank Holding Companies ("**BHC Limited Partners**"), as defined by Section 2(a) of the Bank Holding Company Act of 1956, as amended ("**BHCA**"), are limited to 4.99% of the voting Interest in the Partnership under Section 4(c)(6) of the BHCA. The portion of the Interest in the Partnership held by a BHC Limited Partner in excess of 4.99% of the aggregate outstanding voting Interests of all Limited Partners will be deemed non-voting Interests in the Partnership. BHC Limited Partners holding non-voting Interests in the Partnership are permitted to vote such Interests (i) on any proposal to dissolve or continue the business of the Partnership under the Partnership Agreement and (ii) on matters with respect to which voting rights are not considered to be "voting securities" under 12 C.F.R. § 225.2(q)(2), including such matters which may "significantly and adversely" affect a BHC Limited Partner (such as amendments to the Partnership Agreement or modifications of the terms of its Interest). Except with regard to restrictions on voting, non-voting Interests are identical to all other Interests held by Limited Partners.

Voting Rights and Amendments

The voting rights of Limited Partners are limited. Other than as explicitly set forth in the Partnership Agreement, Limited Partners have no voting rights as to the Partnership or its management. Generally, the Partnership Agreement may be modified or amended only in writing by the affirmative vote of the General Partner and Limited Partners owning more than 50% of the Interests held by Limited Partners, except that the General Partner may amend the Partnership Agreement without the consent of or notice to any of the Limited Partners if, in the opinion of the General Partner, the amendment does not have a material adverse effect any Limited Partner.

Liability of Limited Partners

A Limited Partner's liability to the Partnership is limited to the amount in such Limited Partner's capital account, from time to time (including any amounts thereof attributable to capital contributions). Once an Interest has been paid for in full, the holder of that Interest will have no further obligation at any time to make any loans or additional capital contributions to the Partnership. No Limited Partner will be personally liable for any debts or obligations of the Partnership. Under the Delaware Revised Uniform Limited Partnership Act ("**Delaware Act**"), when a Limited Partner receives a return of all or any part of such Limited Partner's capital contribution, the Limited Partner may be liable to the Partnership for any sum, not in excess of such return of capital (together with interest), if at the time of such distribution the Limited Partner knew that the Partnership was prohibited from making such distribution pursuant to the Delaware Act.

Other Activities of the General Partner, the

None of the General Partner, the Investment Manager or any of the Principals is required to manage the Partnership as its sole and exclusive function. Each of the General Partner, the Investment Manager and the Principals may engage in other business

Investment Manager, the Principals and Affiliates

activities, including competing ventures and/or other unrelated employment, and is only required to devote such time to the Partnership as the General Partner deems necessary to accomplish the purposes of the Partnership. In addition to managing the Partnership and its investments, each of the General Partner, the Investment Manager and the Principals may provide investment management and other services to other parties and may manage other accounts and/or establish other private investment funds in the future (both domestic and offshore), including those that may employ an investment program and strategy similar to that of the Partnership. See “MANAGEMENT”.

Exculpation and Indemnification

Neither the General Partner nor the Investment Manager will be liable to the Partnership or the Limited Partners for any action or inaction in connection with the business and affairs of the Partnership, unless such action or inaction is determined by a final, non-appealable decision of a court of competent jurisdiction to constitute gross negligence or willful misconduct. The Partnership (but not the Limited Partners individually) is obligated to indemnify and hold harmless the General Partner, the Investment Manager and their respective managers, members, officers, employees, agents and affiliates from and against any and all claims, actions, demands, losses, costs, expenses (including attorneys’ fees and other expenses of litigation), damages, penalties or interest, as a result of any claim or legal proceeding related to any action or inaction by any of them in connection with the business and affairs of the Partnership; *provided, however*, that the party against whom the claim is made or legal proceeding is directed is not guilty of gross negligence or willful misconduct, as determined by a final non-appealable decision of a court of competent jurisdiction.

Fiscal Year

The fiscal year of the Partnership will end on December 31 of each year. However, the fiscal year may be changed at any time by the General Partner, in its sole and absolute discretion.

Administrator

JD Clark & Company acts as the Partnership’s Administrator.

Auditor

Rothstein, Kass & Company, P.C. acts as the Partnership’s auditor.

Legal Counsel

Sadis & Goldberg LLP acts as legal counsel to the Partnership, the General Partner, the Investment Manager and certain of their respective affiliates in connection with the offering of Interests and other ongoing matters. Sadis & Goldberg LLP has been retained to prepare offering documentation in connection with the offering but not to conduct any due diligence on the Principals or any of the information in this Memorandum. Sadis & Goldberg LLP does not represent the Limited Partners and each Limited Partner is urged to consult with its, his or her own counsel. Furthermore, if a conflict of interest or dispute arises between the General Partner and/or the Investment Manager, on the one hand, and the Partnership or any Limited Partner, on the other hand, by investing in the Partnership, the Limited Partners acknowledge that Sadis & Goldberg LLP may act as counsel to the General Partner and the Investment Manager and not counsel to the Partnership or the Limited Partners, notwithstanding the fact that, in certain cases, the fees paid to Sadis & Goldberg LLP are paid through or by the Partnership.

Address for Inquiries

You are invited to, and it is highly recommended that you do, meet with the General Partner and/or the Administrator for a further explanation of the terms and conditions of this offering of Interests and to obtain any additional information necessary to verify the information contained in this Memorandum, to the extent the General Partner and/or the Administrator possesses such information or can acquire it without unreasonable effort or expense. Requests for such information should be directed to:

MSO Capital Partners II, LLC
4064 Colony Road, Suite 340
Charlotte, North Carolina 28211
Attention: Todd Gorelick
Telephone: (704) 442-1094
Facsimile: (704) 442-1096
Email: tgorelick@gorelickbrothers.com

or

JD Clark & Company
2225 Washington Boulevard, Suite 300
Ogden, Utah 84401
Attention: Kenneth Lower
Telephone: (801) 866-1160
Facsimile: (801) 866-1161
Email: klower@jdclark.com

BACKGROUND OF MANAGEMENT

The General Partner of the Partnership is MSO Capital Partners II, LLC, a Delaware limited liability company formed on April 20, 2010. The General Partner has discretion over the management and administration of the Partnership's business.

The Investment Manager of the Partnership is Gorelick Brothers Capital, LLC, a North Carolina limited liability company formed on January 17, 2003. The Investment Manager has discretionary authority to invest the Partnership's assets. The Investment Manager is responsible for researching, selecting and monitoring the Portfolio Managers and Portfolio Investments and making decisions on when and how much to invest in, or withdraw from, a particular Portfolio Manager or Portfolio Investment. The Investment Manager may withdraw from, or invest in, new accounts or funds and terminate or enter into new investment advisory agreements without prior notice to, or the consent of, the Limited Partners.

Limited Partners generally do not have any right to participate in the management of the Partnership and have limited voting rights.

The Principals – Todd Gorelick, Israel Gorelick and Christopher Skardon – control the management and operations of the Investment Manager and the General Partner. The Principals and David Piho, the Partnership's assistant portfolio manager, are primarily responsible for managing the Partnership's portfolio.

BACKGROUND OF THE PRINCIPALS AND OTHER PERSONNEL

Todd Gorelick, Managing Partner and Co-Founder

Todd shares portfolio management responsibility and is principally responsible for business operations and compliance for the Partnership, Morrocroft Special Opportunity Fund I, LP, a Delaware limited partnership and private equity fund-of-funds that commenced operations in 2008 ("**PE Fund**"), and Morrocroft Diversified Fund, LP, a Delaware limited partnership and hedge fund-of-funds that commenced operations in 2004 ("**Hedge Fund**"). Prior to founding the Investment Manager in 2003, Todd was Senior Managing Partner of Atlantic Assurance Group, a national residential mortgage information and settlement services business which he founded in 1993. He was also Chief Executive of Atlantic Title Insurance Company, a title insurance underwriter, from 1991 through the same period. Atlantic Assurance and Atlantic Title offered appraisal and other valuation services, title search, closing and foreclosure management services nationally to subprime, alt-A and other non-conforming home equity lenders. From 1991 through 1996, Todd was President of Home Mortgage Company, a subprime residential mortgage lender. Previously, Todd served as an analyst for Freedom Investments, a commercial real estate investment banking concern. Todd graduated from Princeton University in 1986.

Israel Gorelick, Managing Partner and Co-Founder

Israel Gorelick shares responsibility for portfolio management and has primary responsibility for investor relations for the Partnership, the PE Fund and the Hedge Fund. From 2001 until 2003, Israel served as a senior marketing and business development consultant for Atlantic Assurance Group. Israel led Atlantic's expansion into Texas, following the state's adoption of home equity lending. Prior to Atlantic, Israel founded StopmyPMI.com, a business seeking to assist eligible borrowers in cancelling private mortgage insurance. Previously, Israel worked for Showtime Networks, a unit of Viacom, in multiple sales roles, culminating as manager of distribution strategy. Israel graduated from Northwestern University in 1994.

Christopher Skardon, Portfolio Manager

Christopher joined the Investment Manager in 2008 and has primary responsibility for portfolio management for the Partnership and the PE Fund. Christopher has over 18 years of trading and investment experience in mortgage backed and other structured finance securities. Previously, Christopher was a Managing Director at Banc of America Securities LLC, where he was head of collateralized debt obligation trading and syndications. Christopher has held senior investment and trading roles at American Capital Access, Prudential Securities, and Deutsche Bank Securities. Christopher graduated from Yale University in 1991.

David Piho, CFA, Assistant Portfolio Manager

David joined the Investment Manager in 2004, taking on principal responsibility for portfolio management for the Hedge Fund. David currently shares portfolio management responsibilities for the Partnership and the PE Fund. Previously, he filled multiple roles at Yankee Advisers, an institutional fund of hedge funds, where his chief responsibilities included hedge fund sourcing and due diligence. He also served as Portfolio Manager for the firm's legacy equity trading fund. David graduated from the Massachusetts Institute of Technology in 2001 with degrees in Chemical Engineering and Business Management and is currently a CFA charter holder.

Michael Davis, CPA, CFA, Director

Michael joined the Investment Manager in 2008, is a member of the portfolio management team and has principal responsibility for relationship management and capital raising. Michael has 20 years of real estate related capital markets experience. Previously, he was Managing Director for proprietary trading at National City Bank. Michael has also worked at Bank One, PPM America, Duff & Phelps and Kenneth Leventhal & Co. Michael has a B.B.A. from the University of Michigan, an M.B.A. from the University of Chicago, is a certified public accountant and a CFA charter holder.

Tim Williams, CPA, Controller

Tim joined the Investment Manager in September 2004. Tim is responsible for all accounting, audit and tax functions. Previously, he spent over 10 years in public accounting with Arthur Andersen LLP and Grant Thornton LLP, focusing primarily on taxation for partnerships, family businesses and high-net-worth individuals. Tim graduated from Western Carolina University in 1990 with a B.S.B.A. in Accounting and is a certified public accountant.

Beth Feit, CPA, Assistant Controller

Beth joined the Investment Manager in 2009. Beth began her career at Arthur Andersen LLP and has 11 years of experience in public accounting, focused primarily on taxation. She received her undergraduate degree in Accounting from Auburn University and her Masters of Accountancy Degree with a Tax concentration from the University of Tennessee, Knoxville. Beth is a certified public accountant.

Additional Personnel

The General Partner and the Investment Manager may employ additional personnel from time to time.

OTHER ACTIVITIES OF THE GENERAL PARTNER, THE INVESTMENT MANAGER, THE PRINCIPALS AND THEIR AFFILIATES

None of the General Partner, the Investment Manager, any of the Principals or any of their respective managers, members, officers, employees, agents and affiliates (collectively, "**Investment Manager Affiliates**") is required to manage the Partnership as its sole and exclusive function. Each of the General Partner, the Investment Manager, the Principals and the Investment Manager Affiliates may engage in other business activities, including competing ventures and/or other unrelated employment, and is only required to devote such time to the Partnership as the General Partner deems necessary to accomplish the purposes of the Partnership.

In addition to managing the Partnership and its investments, each of the General Partner, the Investment Manager, the Principals and the Investment Manager Affiliates may provide investment management and other services to other parties and may manage other accounts and/or establish other private investment funds in the future (both domestic and offshore), including those that may employ an investment program and strategy similar to that of the Partnership. Specifically, the Principals, the Investment Manager and certain Investment Manager Affiliates provide investment management and other services to the PE Fund and the Hedge Fund, both of which employ a similar investment strategy to that of the Partnership.

INVESTMENTS BY THE GENERAL PARTNER, THE INVESTMENT MANAGER, THE PRINCIPALS AND THEIR AFFILIATES

Capital contributions by the General Partner, the Investment Manager, the Principals and the Investment Manager Affiliates will generally be on the same basis as capital contributions made by other investors, except that, in the discretion of the General Partner and the Investment Manager, no Carried Interest or Management Fee, respectively, may be assessed to such persons. Although the Principals and their affiliates intend to invest a minimum of $1,000,000 in the Partnership, neither the Partnership Agreement nor the Investment Management Agreement requires the General Partner, the Investment Manager, the Principals or any of their respective principals and affiliates to maintain any minimum capital account balance. Notwithstanding the foregoing, the General Partner, the Investment Manager and their respective principals and affiliates will be subject to the same restrictions on withdrawal as the Limited Partners.

ADMINISTRATOR

Pursuant to the Administration, Fund Accounting and Recordkeeping Agreement entered into by and between the Partnership and the Administrator ("**Administration Agreement**"), the Administrator is responsible for, among other things: (i) coordinating and executing all cash movements for Limited Partner and General Partner contributions/withdrawals and payment of all fees and expenses of the Partnership; (ii) processing all subscription, withdrawals and distributions; (iii) conducting initial anti-money laundering procedures on all proposed subscriptions and ongoing anti-money laundering checks; (iv) establishing and maintaining the Partnership's general ledgers; (v) calculating Net Asset Value, Management Fees and Carried Interests; (vi) generating a monthly statement of capital account for each Partner; and (vii) performing other services as agreed in connection with the administration of the Partnership. For the services provided pursuant to the Administration Agreement, the Administrator shall receive monthly fees based on the Partnership's Net Asset Value, subject to an annual minimum, paid out of the Partnership's assets.

The Administrator shall not be liable for any error of judgment or mistake of law or for any loss suffered by the Partnership in connection with the matters to which the Administration Agreement relates, except for a loss resulting from the Administrator's willful misfeasance, bad faith or gross negligence in the performance of its duties or from reckless disregard by it of its obligations and duties under the Administration Agreement. The Partnership agrees to indemnify and hold harmless the Administrator, its employees, agents, officers, directors, shareholders and affiliates from and against any and all claims, demands, actions and suits, and any and all judgments, liabilities, losses, damages, costs, charges, reasonable counsel fees and other expenses of every nature and character which may be asserted against or incurred by any such person or for which any such person may be held liable, arising out of or in any way relating to any action or omission of the Administrator, except to the extent any such Claim resulted from the Administrator's willful misfeasance, bad faith, gross negligence in the performance of its duties or from reckless disregard by it of its obligations and duties under the Administration Agreement.

The initial term of the Administration Agreement shall be for a period of one year from the date of its execution. Thereafter, if not terminated as provided below, the Administration Agreement shall continue automatically in effect for successive annual periods. The Administration Agreement may be terminated by either party without penalty as of the end of any term upon at least 90 days' written notice to the other party prior to the end of any term (which notice may be waived by the other party entitled to such notice).

The Administrator shall have no obligation to review, monitor or otherwise ensure compliance by the Partnership with the investment policies, restrictions or guidelines applicable to it or any other term or condition of this Memorandum, the Partnership Agreement and the Subscription Documents. The Administrator is a service provider to the Partnership and is not responsible for the preparation of this Memorandum or the activities of the Partnership and therefore accepts no responsibility for any information contained in this Memorandum.

AUDITOR

Rothstein, Kass & Company, P.C. acts as the Partnership's auditor.

LEGAL COUNSEL

Sadis & Goldberg LLP acts as legal counsel to the Partnership, the General Partner, the Investment Manager and certain of their respective affiliates in connection with the offering of Interests and other ongoing matters. Sadis & Goldberg LLP has been retained to prepare offering documentation in connection with the offering but not to conduct any due diligence on the Principals or any of the information in this Memorandum. Sadis &

Goldberg LLP does not represent the Limited Partners and each Limited Partner is urged to consult with its, his or her own counsel. Furthermore, if a conflict of interest or dispute arises between the General Partner and/or the Investment Manager, on the one hand, and the Partnership or any Limited Partner, on the other hand, by investing in the Partnership, the Limited Partners acknowledge that Sadis & Goldberg LLP may act as counsel to the General Partner and the Investment Manager and not counsel to the Partnership or the Limited Partners, notwithstanding the fact that, in certain cases, the fees paid to Sadis & Goldberg LLP are paid through or by the Partnership.

INTRODUCTION

The Partnership was organized to pool investment funds, and to allocate them among a number of Portfolio Managers selected in each case by the Investment Manager. The Partnership may offer the advantage of diversification across investment pools that individual investors may not be able to accomplish directly due to minimum initial investment requirements, limitations on the number of partners, or lack of sufficient expertise or other resources necessary to identify, evaluate and monitor a number of Portfolio Managers executing diverse strategies. In industry parlance, the Partnership is a "fund-of-funds". A fund-of-funds (or multi-manager fund) is a fund that allocates capital to more than one investment pool or other alternative investment vehicle (or investment manager).

The following is a general description of the principal types of investments which the Investment Manager currently contemplates making for the Partnership, the criteria that it plans to apply, and the guidelines that it has established with respect to the composition of its investment portfolio. The following description is merely a summary and you should not assume that any descriptions of the specific activities in which the Partnership may engage are intended in any way to limit the types of investment activities which the Partnership may undertake or the allocation of Partnership capital among such investments. The Investment Manager reserves the right to alter any Partnership investment policy or strategy as deemed appropriate from time to time in its discretion without obtaining prior Limited Partner approval.

INVESTMENT OBJECTIVE

The Partnership's investment objective is to profit from opportunities arising from the extraordinary disruption in credit markets, especially those related to residential mortgage lending. The Partnership seeks to achieve capital appreciation by allocating the Partnership's assets among a group of Portfolio Managers that primarily invest in agency residential mortgage-backed securities ("**RMBS**"), non-agency RMBS, and residential whole loans. **No assurance can be given, however, that the Partnership will achieve its objective, and investment results may vary substantially over time and from period to period.**

INVESTMENT STRATEGY AND PROCESS

The Partnership relies on the Investment Manager to evaluate and select Portfolio Investments. The Investment Manager researches, selects and monitors Portfolio Investments that employ the varying strategies and techniques described herein. The Investment Manager undertakes significant due diligence in evaluating a prospective Portfolio Manager. The Investment Manager selects Portfolio Managers on the basis of varying criteria, including, among other things: experience and expertise of the Portfolio Manager's principals and employees; integrity; discipline, clarity and formality of investment processes and ability to execute; attractiveness of investment strategy; track record; targeted return; quality of business operations; consistency and quality of its valuation practices; breadth, depth and adherence to risk controls; quality, frequency and timeliness of reporting; incentives and alignment of interests, including such Portfolio Manager's substantial personal financial investment alongside investors; liquidity restrictions; and differentiation from other Partnership investments.

The Investment Manager expects that some Portfolio Investments will be closed-end investment funds, which call committed capital during a prescribed investment period and will not permit the Partnership to redeem its investment but rather subsequently self-liquidate by returning capital and profit. Others will be open-end investment funds, which accept capital from investors in the discretion of the applicable Portfolio Managers, may reinvest capital with no predetermined or targeted investment period or lifetime, and allow investors to redeem capital subject to certain limits.

Because the Partnership is focused exclusively on opportunities arising from the current dislocation in credit markets, some of the Portfolio Investments will be newly-established Portfolio Funds without prior track records. Therefore, in evaluating a prospective Portfolio Manager, the Investment Manager will take into consideration past experience investing in similar securities or during distressed periods. The Investment Manager will also favor Portfolio Managers with incentive-based compensation structures, meaningful personal investments in the prospective Portfolio Investment, a circumstance that favors similar alignment of interest in respect of a Portfolio Account, and annual audits by an independent public accounting firm.

Each Portfolio Manager has complete discretion to purchase and sell securities for the relevant Portfolio Investment, subject to any limitations set forth in the operating documents of such Portfolio Investment. With the exception of certain public investment vehicles, such as REITs or closed-end funds, the Partnership will not invest in individual securities directly or direct the security selection of Portfolio Managers.

Asset Types and Investment Techniques

Generally, the Investment Manager expects to make three types of Portfolio Investments:

(1) Agency Residential Mortgage-Backed Securities ("Agency RMBS")

The Investment Manager expects that Portfolio Managers will invest in securities, or derivatives of securities, issued and guaranteed by a U.S. government-sponsored entity, such as Fannie Mae, Ginnie Mae and Freddie Mac (each, a "**GSE**"). The Investment Manager believes it is typical for Portfolio Managers to hedge interest rate, prepayment and credit risks, and to use financial leverage or invest in securities with embedded leverage. Agency RMBS strategies feature a broad array of trading techniques, examples of which include: (a) opportunistic investing arising from deleveraging, forced selling or the issuance of new security types; (b) relative value investments, which take advantage of temporary disparities in the differences between securities in different sectors, such as Treasuries and mortgages, of different coupons, issued by different-issuers, or of diverse maturities, among other factors; (c) prepayment arbitrage, which takes advantage of uncertainty in the rate at which mortgages are refinanced or bought out of the pools securing Agency RMBS bonds as a result of changes in interest rates, economic conditions, credit availability, and government or GSE actions; and (d) complexity or sum-of-parts discount trades, which take advantage of discounts from intrinsic value arising from complexity or lack of demand for derivative securities, which, in some instances can be recombined to create more simply structured bonds for which there is greater demand. Agency RMBS strategies are generally trading-oriented, though some securities, especially those with relatively high yields, may be held for long periods. The Investment Manager believes a Portfolio Manager's skill in these strategies arises from lengthy experience in Agency RMBS trading, knowledge of fundamental and technical factors, and analytical and modeling capabilities.

(2) Non-Agency Residential Mortgage Backed Securities ("Non-Agency RMBS")

The Investment Manager expects that Portfolio Managers will also invest in a broad array of asset-backed securities, predominantly related to residential mortgages, which when originated were not eligible to be purchased by a GSE due to credit quality, loan type, collateral characteristics, loan size, or certain other factors. Asset types may include RMBS issued by entities other than GSEs, collateralized by pools of prime jumbo, Alt-A, subprime and option ARM (adjustable rate mortgage) RMBS, other non-conforming residential mortgage loans, derivatives of Non-Agency RMBS, mortgage servicing rights, and other asset-backed securities. The Investment Manager expects that Portfolio Managers will pursue a diverse range of techniques, including holding to maturity, relative value trades, re-REMIC (re-securitized real estate mortgage investment conduit) or similar structuring or securitization actions, pursuing odd-lot discounts, and using government leverage or anticipating its use by others. Some Non-Agency RMBS strategies are expected to include hedging of interest rate, market or other risks. Some strategies will also include the use of leverage. Generally, Portfolio Managers will assess the intrinsic value of a Non-Agency RMBS security through loan-level analysis, predicting the likely cash flows from mortgage payments and payoffs, net of losses, from the pool of mortgage loans backing the security. The Investment Manager believes that many strategies require sophisticated, often proprietary, modeling tools, access to data on the performance of underlying mortgage loans, information regarding home prices and other economic factors, knowledge of government mortgage programs and policies, loan servicing practices, and general credit conditions, and data regarding liquidation costs and timelines. The Investment Manager believes that Portfolio Managers may seek to profit from trading gains, price appreciation, recoupment of principal discount through amortization, current yield, and favorable changes in the relative value of two or more assets.

(3) Residential Whole Loans

The Investment Manager expects that Portfolio Managers will invest in residential whole loans, or securities backed by such residential whole loans, in respect of which the applicable Portfolio Manager controls mortgage loan servicing. Loans may be performing or non-performing, of diverse loan types, secured by first or second liens on residential or, in some cases, small commercial properties, located generally within the United States, and previously originated at any time or newly-originated. In general, Portfolio Managers will seek to purchase whole loans from holders who for non-economic reasons must sell them at a discount from their unpaid principal balances. Such sellers may include banks, non-bank mortgage companies, government entities, such as the U.S. Federal Deposit Insurance Corporation ("**FDIC**"), or other holders. Examples of techniques for realizing potential gains include receiving interest and principal from mortgage payments, modifying loans to improve performance, taking actions to improve prepayments through refinancing or short sales, increasing cash flows by improving collection and servicing methods and execution, and note sales or securitization, among others. Portfolio Managers are expected to rely on their ability to evaluate and select assets for purchase, negotiate and structure purchase terms, and capacity and ability to service mortgage loans effectively.

While the Investment Manager expects Portfolio Managers to invest in the types of Portfolio Investments described above, Portfolio Managers may also invest in a broad array of assets related to the mortgage financing crisis. Asset types will include, without limitation, non-residential whole loans, loan participations, residential or commercial real estate owned ("**REO**") properties, commercial mortgage backed securities ("**CMBS**"), including collateralized mortgage obligations ("**CMOs**"), collateralized debt obligations ("**CDOs**"), collateralized loan obligations ("**CLOs**"), collateralized bond obligations ("**CBOs**"), other asset-backed securities, servicing rights, real property, public or private equities, and credit default swaps ("**CDS**"), or other derivatives referencing the foregoing securities, including indexes of such derivatives (ABX, CDX, LCDX and PrimeX). Portfolio Managers may hedge holdings with similar securities, derivatives thereof, U.S. Treasury securities or other fixed income or equity securities.

In addition to those already described, Portfolio Managers may pursue a variety of investment techniques, seeking to realize gains from a combination of current cash flows and capital appreciation. Those techniques may include, without limitation, any combination of the following in respect of the asset types described above: holding until maturity; selling short; active asset management; relative value or other hedged trading; high-grade investing; and active or passive distressed investing.

Portfolio Managers may also participate in the formation, recapitalization or acquisition of private companies, including mortgage originators, servicers, insurers, or other firms related to the mortgage or structured finance businesses. The Investment Manager will favor Portfolio Managers who limit such private equity investment to a small proportion of their investment portfolios. Some Portfolio Managers will use leverage. The Investment Manager will assess whether the expected leverage in a Portfolio Investment is prudent, and the sources and structure of financing, appropriate, for its intended use. The

Investment Manager expects the Partnership's Illiquid Investments (which will likely include Portfolio Investments in residential whole loans) to be long-biased or exclusively long and may use leverage.

Location of Portfolio Managers and Underlying Assets

Although the Investment Manager expects to invest predominantly in Portfolio Investments managed by Portfolio Managers located in the United States, it may also allocate the Partnership's assets to Portfolio Managers located overseas. The Investment Manager expects most or all of the securities and loans in which Portfolio Managers invest to be issued by U.S.-domiciled issuers or backed by underlying assets located in the United States, however, a portion of such securities and loans may be issued by non-U.S. issuers and/or located outside of the United States. It should be noted that, although structured credit vehicles, including CDOs and CLOs, are generally domiciled in foreign jurisdictions, their assets are generally located or issued in the United States.

Diversification and Risk Limits

The Partnership diversifies its investments among multiple Portfolio Investments and selects Portfolio Managers which possess different investment strategies in order to reduce the investment risk associated with an investment in any particular Portfolio Investment. By creating a "portfolio" of Portfolio Investments with different investment strategies and approaches, the Partnership seeks to produce composite results that are less prone to loss than the results of an investment in any one Portfolio Investment. The Investment Manager attempts to achieve lower relative levels of risk than would be derived from an individually selected portfolio, Portfolio Account or an investment in a single Portfolio Fund, by diversifying across a number of Portfolio Investments, thereby reducing exposure to a single Portfolio Fund or Portfolio Manager. The selection of Portfolio Investments for investment by the Partnership depends not only on the absolute strength of the Portfolio Managers themselves, but also on how well the Investment Manager anticipates the strategies will perform as part of a diversified portfolio of Portfolio Managers.

Assets will not necessarily be allocated *pro rata* to Portfolio Managers, nor will the relative size of the Partnership's investments remain static, either when valued at cost or at then current market value. The Investment Manager will allocate capital based on its assessment of each Portfolio Manager's prospects at the time of allocation as well as the Portfolio Manager's capacity to accept additional capital. The Investment Manager will adhere to the following guidelines and constraints:

(i) The Partnership intends to hold at least 10, but generally not more than 15, Portfolio Investments by the end of the Investment Period; however, the Investment Manager may hold more than 15 Portfolio Investments if circumstances so warrant;

(ii) The Partnership intends to allocate no more than 50% of its capital to Agency RMBS strategies, no more than 50% to Non-Agency RMBS strategies, and no more than 40% to whole loan strategies. Some Portfolio Investments may be split among two or three strategies in the Investment Manager's reasonable judgment;

(iii) The Partnership will allocate capital only to Portfolio Managers who expect to invest *predominantly* in the asset types described above;

(iv) The Partnership will allocate no more than 25% of its capital to Portfolio Investments managed by the same Portfolio Manager or Portfolio Managers that are affiliated with one another;

(v) The Partnership will allocate no more than 30% of its capital to any single Portfolio Investment;

(vi) The Partnership will allocate no more than 40% of its capital to Illiquid

Investments;

(vii) The Partnership will allocate no more than 15% of its capital to Portfolio Managers who expect to invest *predominantly* in private equities; and

(viii) The Partnership will *not* borrow money in connection with its investment activities (but may borrow for short-term cash management purposes).

Monitoring, Redemptions, Return of Capital from Portfolio Investments

The Investment Manager will monitor and evaluate the continued effectiveness of each Portfolio Investment and each Portfolio Manager's adherence to its stated terms and strategies. While the Partnership has the right to redeem or reallocate investments during the Investment Period, the Investment Manager expects limited turnover.

The Investment Manager may make changes in Portfolio Investments during the Investment Period for any reason, but it is anticipated that such changes will be made only if a Portfolio Investment or Portfolio Manager no longer meets the Partnership's selection criteria. The Investment Manager will periodically reassess the allocation of the Partnership's assets to determine if redemption is warranted as a result of changing investment strategies, certain market dislocations or exogenous factors such as government action. The Partnership may not be able to redeem and reallocate its assets in response to such changes because information about the securities positions of the underlying Portfolio Investments may not be readily available at all times and transfer restrictions or lack of liquidity may constrain the Partnership's ability to act on a timely basis. If the Partnership redeems capital from a Portfolio Investment during the Investment Period, the Partnership may reinvest the proceeds in whole or in part into existing or new Portfolio Investments, or, in the Investment Manager's sole discretion, the Partnership may return capital to Limited Partners. Subsequent to the Investment Period, the Partnership will return the proceeds of such redemptions, and will also distribute any capital returned to it from Portfolio Investments, to Limited Partners.

The Partnership may initially hold up to 40% of its capital in cash for the purpose of investing in illiquid Portfolio Investments that have limited opening windows, such as those using whole loan strategies or structured as closed-end vehicles. Pending investment in Portfolio Investments or payment of expenses, such cash assets will be invested in obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities, bank deposits, money market instruments and other short-term interest bearing accounts.

DEVELOPMENT AND RISKS OF THE INVESTMENT MANAGER'S INVESTMENT STRATEGY

The development of an investment strategy is a continuous process, and the Investment Manager's investment strategy and methods may therefore be modified from time to time. The Investment Manager's investment methods are confidential and the descriptions of them in this Memorandum are not exhaustive. The Investment Manager's investment strategies with respect to the Partnership's portfolio may differ from those used by the Investment Manager and its affiliates with respect to other accounts they manage. Investment decisions require the exercise of judgment by the Investment Manager. The Investment Manager may, at times, decide not to make certain investments, thereby foregoing participation in price movements that would have yielded profits or avoided losses. Limited Partners cannot be assured that the strategies or methods utilized by the Investment Manager will result in profitable investments for the Partnership.

The Partnership's investment program entails substantial risks, and there can be no assurance that its investment objective will be achieved.

An investment in the Partnership involves significant risks not associated with other investment vehicles and is suitable only for persons of adequate financial means who have no need for liquidity in this investment. **There can be no assurances or guarantees that (i) the Partnership's investment strategy will prove successful, or (ii) investors will not lose all or a portion of their investment in the Partnership**.

References herein to the Partnership's investments through Portfolio Managers and Portfolio Investments will also include, where appropriate, the instances whereby the Investment Manager directly invests the Partnership's assets.

You should consider the Partnership as a supplement to an overall investment program and should only invest if you are willing to undertake the risks involved. In addition, investors who are subject to income tax should be aware that an investment in the Partnership is likely (if the Partnership is successful) to create taxable income or tax liabilities in excess of cash distributions to pay such liabilities. You should therefore bear in mind the following risk factors and conflicts of interest before purchasing an Interest:

PARTNERSHIP RISKS

Dependence Upon the General Partner, the Investment Manager and the Principals. The Partnership's success will depend on the management of the General Partner and the Investment Manager and on the skill and acumen of the Principals and Mr. Piho. If any of the Principals or Mr. Piho should cease to participate in the Partnership's business, the Partnership's ability to select attractive investments and manage its portfolio could be severely impaired.

As a Limited Partner, you should be aware that Limited Partners generally do not have any right to participate in the management of the Partnership and have limited voting rights, and you will have no opportunity to select or evaluate any of the Partnership's investments or strategies. Accordingly, you should not invest in the Partnership unless you are willing to entrust all aspects of the management of the Partnership and its investments to the discretion of the General Partner and the Investment Manager.

Lack of Operating History. Each of the Partnership and the General Partner is a newly-formed entity and, therefore, has no operating history upon which prospective investors may evaluate the Partnership's future performance. Although the Investment Manager has been in operation since 2003, any prior performance results of the Investment Manager (or the PE Fund or the Hedge Fund) are not necessarily indicative of those that the Investment Manager may obtain in the future for the Partnership.

Limited Liquidity of Interests. An investment in the Partnership involves substantial restrictions on liquidity and its Interests are not freely transferable. There is no market for the Interests in the Partnership, and no market is expected to develop. Additionally, transfers are subject to the consent of the General Partner, which consent may be granted or withheld in the General Partner's sole discretion. Consequently, Limited Partners will be unable to liquidate their Interests, except by withdrawing from the Partnership in accordance with the Partnership Agreement. Limited Partners may be unable to liquidate their investment promptly in the event of an emergency or for any other reason. Although a Limited Partner may attempt to increase its liquidity by borrowing from a bank or other institution, Interests may not readily be accepted as collateral for a loan. In addition, the transfer of an Interest as collateral or otherwise to achieve liquidity may result in adverse tax consequences to the transferor.

Lack of Registration. The Interests have neither been registered under the Securities Act nor under the securities laws of any state and, therefore, are subject to transfer restrictions. In connection with your purchase of an Interest, you must represent that you are purchasing the Interest for investment purposes only and not with a view toward resale or distribution. Neither the Partnership nor the General Partner has any plans or assumed any obligation to register the Interests. Accordingly, the Interests may not be transferred without documentation acceptable to the General Partner that the transfer will not involve a violation of the registration requirements of the Securities Act or the Investment Company Act. These restrictions on transfer are in addition to those found in the Partnership Agreement. Ordinarily, this means that transfers will be restricted to instances of death, gift or passage by operation of law.

Withdrawal of Capital. A Limited Partner's ability to withdraw funds from the Partnership is restricted in accordance with the withdrawal provisions contained in this Memorandum under "SUMMARY OF OFFERING AND PARTNERSHIP TERMS — Withdrawals" and the withdrawal provisions contained in the Partnership Agreement, and is subject to the Special Carried Interest. In addition, all withdrawals by Limited Partners will be subject to any limitations on withdrawals imposed by the Portfolio Investments or Portfolio Managers, as applicable.

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

Withdrawals, Resignation and Transfers by General Partner. Neither the Partnership Agreement nor the Investment Management Agreement requires the General Partner, the Investment Manager, the Principals or any of their respective principals and affiliates to maintain any minimum capital account balance. Notwithstanding the foregoing, the General Partner, the Investment Manager and their respective principals and affiliates will be subject to the same restrictions on withdrawal as the Limited Partners. The Partnership Agreement provides that the General Partner may resign at any time upon 30 days' notice to the Limited Partners. Upon such resignation of the General Partner, or upon its bankruptcy or dissolution, the remaining Limited Partners have the right to appoint a substitute general partner; otherwise, the Partnership will be dissolved. The Partnership Agreement also permits the General Partner to appoint additional general partners and to transfer its general partner interest to an affiliate without the consent of Limited Partners.

General Partner's Right to Dissolve the Partnership or Expel Limited Partner. The General Partner has the right to dissolve the Partnership at any time upon 30 days' notice to the Limited Partners. Accordingly, there is a risk that if the Partnership's assets become depleted, the General Partner may elect to dissolve the Partnership and distribute its remaining assets. The General Partner also has the right to expel a Limited Partner at any time on not less than five days' written notice for any reason or no reason. Such mandatory withdrawal or expulsion could result in adverse tax and/or economic consequences to affected Limited Partners. No person will have any obligation to reimburse any portion of a Limited Partner's losses – upon dissolution, expulsion, withdrawal or otherwise.

Impact of Side Letters. The Partnership, the General Partner and/or the Investment Manager may from time to time enter into Side Letters with one or more Limited Partners that provide such Limited Partner(s) with additional and/or different rights (including, without limitation, with respect to the Management Fee, the Carried Interest, access to information and minimum investment amounts) than such Limited Partner(s) have pursuant to this Memorandum and the Partnership Agreement (provided that no liquidity preferences will be granted to any Limited Partner that would be adverse to the interests of the other Limited Partners). Neither the General Partner nor the Investment Manager will be required to notify any or all of the other Limited Partners of any such written agreements or any of the rights and/or terms or provisions thereof, nor will the General Partner or the Investment Manager be required to offer such additional and/or different rights and/or terms to any or all of the other Limited Partners. The other Limited Partners will have no recourse against the Partnership, the General Partner, the Investment Manager and/or any of their affiliates in the event that certain Limited Partners receive additional and/or different rights and/or terms as a result of such Side Letters. As a result, the General Partner and the Investment Manager may face potential conflicts of interest if they manage the assets of the Partnership in accordance with certain risk parameters in order to preserve the investments of such Limited Partners.

Cross-Class Liability. The Partnership may establish and offer separate series and/or classes of Interests (including those with different investment programs and asset pools). Although each such class and series will be maintained by the Partnership separately with separate accounting records, the Partnership as a whole, including any subsequently-issued separate classes and series, is one legal entity. Thus, all of the assets of the Partnership are available to meet all of the liabilities of the Partnership, regardless of the class or series to which such assets or liabilities are attributable. In practice, cross-class liability will usually only arise where any class or series becomes insolvent and is unable to meet all of its liabilities. In this case, all of the assets of the Partnership attributable to other classes and series may be applied to cover the liabilities of any insolvent class or series.

Performance-Based Compensation; Arrangements with Portfolio Managers. The Partnership will enter into arrangements with Portfolio Managers to manage a portion of the Partnership's assets that provide that such Portfolio Managers be compensated, in whole or in part, based on the appreciation in value (including possibly unrealized appreciation) of the Portfolio Investments during specific measuring periods. In certain cases, Portfolio Managers may be paid a fee based on appreciation during the specific period without taking into account losses occurring in prior periods. Such fee arrangements may create an incentive for such Portfolio Managers to make investments that are riskier than would be the case in the absence of such performance-based compensation arrangements. Due to the fees and expenses charged by the Portfolio Managers, the Partnership is subject to layering of administrative expenses and management fees, as well as of incentive compensation. Such fees in the aggregate will constitute a higher percentage relative to other investment entities. Further, the expense policies of the Portfolio Managers may not be consistent with the Partnership’s expense policies. In addition, the Partnership may be required to make an incentive allocation to certain Portfolio Managers who make a profit for the Partnership in a particular fiscal period even though the Partnership may in the aggregate incur a net loss for such fiscal period.

Access to Information from Portfolio Managers. The Investment Manager will request detailed information on a continuing basis from each Portfolio Manager regarding such Portfolio Manager’s historical performance and investment strategies. However, the Investment Manager may not always be provided with detailed information regarding all the investments made by a Portfolio Manager because certain of this information may be considered proprietary information by such Portfolio Manager. This potential lack of access to information may make it more difficult for the Investment Manager to select, allocate amongst and evaluate certain Portfolio Managers.

Supervision of Trading Operations. The Investment Manager expects that the principals and employees of each Portfolio Manager will supervise and monitor the trading activity of the relevant Portfolio Investment to ensure compliance with the Portfolio Manager's investment objectives. Although the Investment Manager expects such individuals to supervise and monitor the trading activity of the relevant Portfolio Investment, there can be no assurances that fraudulent or deceptive acts will not occur. If such fraudulent or deceptive acts are found, the applicable Portfolio Manager and Portfolio Investment may face legal actions and monetary claims and experience high costs in defending such actions and claims, any of which could lead to the total loss of the Portfolio Investment’s assets and, thus, a loss of all or part of the Partnership’s investment in such Portfolio Investment.

Portfolio Manager Conflicts. Conflicts of interest may arise from the fact that Portfolio Managers can carry on investment activities for their own accounts and for other clients in which the Partnership has no interest.

Competition Among Managers. The Portfolio Managers trade independently of each other and may place orders for the Partnership that "compete" with each other for execution or that cause the Partnership to establish positions that offset or hedge each other (in which case the Partnership would incur fees without the potential for a profit).

Operating Deficits. The expenses of operating the Partnership (including the Management Fee) may exceed its income, thereby requiring that the difference be paid out of the Partnership's capital, reducing the Partnership's investments and potential for profitability.

Investment Expenses. The investment expenses (*e.g.*, expenses related to the acquisition of information needed to evaluate, select and monitor Managers and Portfolio Investments), as well as other Partnership fees may, in the aggregate, constitute a high percentage relative to other investment entities. The Partnership will bear these costs regardless of its profitability.

Carried Interest. The Carried Interest creates an incentive for the Investment Manager, an affiliate of the General Partner, to invest in Portfolio Investments that are riskier or more speculative than would be the case in the absence of such an allocation. Further, it is possible that the General Partner can earn and retain the Special Carried Interest even if a Limited Partner does not eventually recover its entire capital contribution to the Partnership.

Broad Discretionary Power to Choose Investments and Strategies. The Investment Management Agreement gives the Investment Manager broad discretionary power to decide what investments the Partnership will make and what strategies it will use. While the Investment Manager currently intends to use the strategies described in the "INVESTMENT PROGRAM", it is not obligated to do so, and it may choose any other investments and strategies that it believes are advisable.

Limitation of Liability and Indemnification of the General Partner, the Investment Manager and Affiliates. The Partnership Agreement provides that neither the General Partner nor the Investment Manager will be liable to the Partnership or the Limited Partners for any action or inaction in connection with the business and affairs of the Partnership, unless such action or inaction is determined by a final, non-appealable decision of a court of competent jurisdiction to constitute gross negligence or willful misconduct. The Partnership (but not the Limited Partners individually) is obligated to indemnify and hold harmless the General Partner, the Investment Manager and their respective managers, members, officers, employees, agents and affiliates from and against any and all claims, actions, demands, losses, costs, expenses (including attorneys' fees and other expenses of litigation), damages, penalties or interest, as a result of any claim or legal proceeding related to any action or inaction by any of them in connection with the business and affairs of the Partnership; *provided, however*, that the party against whom the claim is made or legal proceeding is directed is not guilty of gross negligence or willful misconduct, as determined by a final non-appealable decision of a court of competent jurisdiction. The Investment Management Agreement also provides similar protections to the Investment Manager. Therefore, a Limited Partner may have a more limited right of action against the General Partner and the Investment Manager (and certain of their respective affiliates) than a Limited Partner would have had absent these provisions in the Partnership Agreement and the Investment Management Agreement. **It is the policy of the Securities and Exchange Commission ("SEC") that indemnification for violations of securities laws is against public policy and therefore unenforceable.**

Size of Partnership. The Partnership may begin and continue operations without attaining or maintaining any particular level of capitalization. At low asset levels, the Partnership may be unable to make its investments as fully as would otherwise be desirable or to take advantage of potential economies of scale, including the ability to obtain the most timely and valuable research and trading information. In addition, it is possible that at low asset levels the Partnership may be invested in only one or two Portfolio Investments. It is possible that, even if the Partnership operates for a period with substantial capital, losses or Limited Partners' withdrawals could diminish the

Partnership's assets to a level that does not permit the most efficient and effective implementation of the Partnership's investment program. As a result of losses or withdrawals, the Partnership may not have sufficient capital to diversify its investments to the extent desired or currently contemplated by the Investment Manager.

Liability of a Limited Partner for the Return of Capital Contributions. If the Partnership should become insolvent, the Partners may be required to return any property distributed to them at the time the Partnership was insolvent, and forfeit their capital accounts.

Delayed Schedule K-1s. The General Partner will endeavor to provide a Schedule K-1 to each Limited Partner for any given calendar year prior to April 15 of the following year. In the event that the Schedule K-1 is not available by such date, a Limited Partner may have to request an extension of time to file or may have to pay taxes based on an estimated amount.

Phantom Income. The Partnership may generate taxable income to the Partners without a corresponding cash distribution. Limited Partners are strongly urged to review the discussion below under "TAXATION" and to consult their own professional advisors in this regard.

Lack of Insurance. The assets of the Partnership are not insured by any government or private insurer, except to the extent portions may be deposited in bank accounts insured by the FDIC or with brokers insured by the United States Securities Investor Protection Corporation and such deposits and securities are subject to such insurance coverage (which, in any event, is limited in amount). Therefore, in the event of the insolvency of a depository or the Custodian, the Partnership may be unable to recover all of its funds or the value of its securities so deposited.

Forward-Looking Statements; Opinions. Statements contained in this Memorandum that are not historical facts are based on current expectations, estimates, projections, opinions and/or beliefs of the Partnership. Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon. Moreover, certain information contained in this Memorandum constitutes "forward-looking" statements, which can be identified by the use of forward-looking terminology, such as "may", "will", "seek", "should", "expect", "anticipate", "project", "estimate", "intend", "continue" or "believe", or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, including those set forth herein, actual events or results or the actual performance of the Partnership may differ materially from those reflected or contemplated in such forward-looking statements.

MARKET RISKS

Competition. The securities industry and the varied strategies and techniques to be engaged in by the Investment Manager and the Portfolio Managers are extremely competitive and each involves a degree of risk.

Market Volatility. The profitability of the Partnership substantially depends upon the Portfolio Managers correctly assessing the future price movements of securities and other financial instruments, and the movements of interest rates. The Partnership cannot guarantee that the Portfolio Managers will be successful in accurately predicting those prices and interest rate movements.

Partnership's Investment Activities. The Partnership's investment activities involve a significant degree of risk. The performance of any investment is subject to numerous factors that are neither within the control of nor predictable by the Investment Manager or any of the Portfolio Managers. Such factors include a wide range of economic, political, competitive and other conditions (including acts of terrorism or war) that may affect investments in general or specific industries or companies. The securities and credit markets may be volatile, which may adversely affect the ability of the Partnership to realize profits. As a result of the nature of the Partnership's investing activities, it is possible that the Partnership's financial performance may fluctuate substantially from period to period and investors are subject to potentially large losses on their investments in the Partnership.

Accuracy of Public Information. The Portfolio Managers may select investments for the Portfolio Investments, in part, on the basis of public information and data. Although the Portfolio Managers may evaluate such information and data and may seek independent corroboration when considered appropriate and when it is reasonably available, the Portfolio Managers are generally not in a position to confirm the completeness, genuineness or accuracy of such information and data, and in some cases, complete and accurate information is not available. Investments may not perform as expected if information is inaccurate.

Risks Related to Investments in RMBS Positions. RMBS are subject to particular risks, including a lack of standardized terms, uncertainty of payments of principal and interest, and illiquidity of secondary markets. Additional risks may be presented by the type and use of a particular residential property. Principal and interest payments on residential mortgages are uncertain and are subject to various risks, including: changes in general or local economic conditions and/or specific industry segments; declines in real estate values; availability of financing; declines in rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies; acts of God; terrorist threats and attacks and social unrest and civil disturbances. The exercise of remedies and successful realization of liquidation proceeds relating to RMBS securities may be highly dependent on the performance of the servicer or special servicer. There may be a limited number of special servicers available, particularly those that do not have conflicts of interest.

Limited Liquidity in the Secondary Market. The secondary mortgage markets are currently experiencing disruptions resulting from reduced investor demand for mortgage loans and RMBS and increased investor yield requirements for those loans and RMBS. As a result, the secondary market for RMBS is experiencing limited liquidity. These conditions may continue or worsen in the future. Limited liquidity in the secondary market for RMBS has had, and may continue to have, a severe adverse effect on the market value of RMBS.

Uncertain Cashflows from U.S. RMBS. Investment performance of U.S. RMBS is highly dependent on the principal and interest received from the underlying mortgage loans. These mortgage loan cashflows have become much more uncertain over the past few years due to a variety of factors, including, but not limited to, poor and/or fraudulent loan underwriting, dramatic drops in home prices, high levels of unemployment, U.S. government intervention and high levels of U.S. consumer debt. This uncertainty is at the root of the illiquidity of the U.S. RMBS market and forms the basis for a Portfolio Manager's opportunity to achieve high returns for the applicable Portfolio Investment. However, there is no certainty that such Portfolio Manager will be able to correctly anticipate how individual borrowers may respond over time given the uncertainties around a number of economic and political factors. Therefore, investing in U.S. RMBS involves a high degree of risk.

Other Risks Related to Investments in RMBS Positions. RMBS markets are fairly developed and thus, generally, are collateralized and reasonably liquid. However, there are substantial risks involved with RMBS and related instruments, primarily those associated with the underlying assets (namely the residential mortgages). Described below are several factors that may result in adverse movements in RMBS spreads and, therefore, may adversely affect the value of a Portfolio Investment's RMBS positions.

Prepayment and Reinvestment Risk. Prepayment risk is the risk that homeowners will pay off more than their required monthly mortgage payments. Pursuant to a loan agreement, a borrower may be required in certain circumstances, and may have the option at any time, to prepay the principal amount of the loan, generally without incurring a penalty. Prepayment is usually precipitated by a decline in interest rates. As prepayments occur, the amount of principal retained in the RMBS declines faster than what otherwise may be expected, thus shortening the average life of the RMBS by returning principal prematurely, potentially at a time when interest rates are low. In the event a prepayment occurs, the applicable Portfolio Investment may not be able to reinvest such amounts on terms as favorable to the Partnership as the initial investment or find a suitable alternative investment.

Extension Risk. Extension risk is the risk that homeowners will decide not to make prepayments on their mortgages to the extent initially expected; rather they make only the required monthly payment. Extension risk tends to increase in union with increasing interest rates because when interest rates are high, homeowners have little incentive to refinance their mortgages. As the prepayments that were expected do not materialize, the average length of term (average life) originally estimated extends beyond that which was originally anticipated, resulting in a security that is lengthier in term.

Default Risk. Default risk is the risk that homeowners will default on their mortgage payments. In the event of a homeowner mortgage default there are several restrictions which may impede the ability of the mortgage servicer to liquidate defaulted mortgage loans or pursue loss-mitigating alternatives. Such alternatives may include foreclosure, sale of the mortgaged property, negotiating a workout and obtaining a deficiency judgment. Some liquidation alternatives, deficiency judgments in particular, may require several years before completion (due to statutory regulation) and, in some cases, the judgment awards may be limited by law.

Investments in RMBS Believed to be Undervalued. A portion of a Portfolio Investment's portfolio may be invested in RMBS that the applicable Portfolio Manager believes to be undervalued. The identification of such investment opportunities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While such investments offer opportunities for capital appreciation, they also involve a high degree of financial risk and can result in substantial losses. Returns generated from the Portfolio Investment's investments may not adequately compensate for the business and financial risks assumed. The current economic conditions and any future major economic recession can severely disrupt the market for such investments and significantly impact their value. In addition, such economic downturn can increase the incidence of default for RMBS. Additionally, there can be no assurance that investors will ever come to realize the value of some of these investments, and that they will ever increase in price. Furthermore, the Portfolio Investment may be forced to hold such investments for a substantial period of time before realizing their anticipated value. During this period, a portion of the Portfolio Investment's funds would be committed to the investments made, thus possibly preventing such Portfolio Investment from investing in other opportunities that may increase the Partnership's returns.

Bankruptcy and Insolvency of Servicers. Due to the severely depressed conditions of the asset-backed and mortgage markets, a number of otherwise economically viable issuers and servicers are experiencing difficulty avoiding insolvency or bankruptcy. A Portfolio Investment may not be able to liquidate its positions on an economically viable basis until market conditions improve, and, accordingly, may be required to hold securities of issuers and servicers undergoing bankruptcy proceedings and corporate restructurings. It is not possible to predict the outcome of any bankruptcy proceeding or restructuring, and any such outcome may be delayed for a number of years.

Structured Finance Securities. The Investment Manager expects Portfolio Managers to invest in structured finance securities, such as CMOs, CDOs, CBOs and CLOs. Investing in structured finance securities may entail a variety of unique risks. Among other risks, structured finance securities may be subject to prepayment risk. In addition, the performance of a structured finance security will be affected by a variety of factors, including (a) its priority in the capital structure of the issuer thereof, (b) the availability of any credit enhancement, (c) the level and timing of payments and recoveries on, and the characteristics of, the underlying receivables, (d) loans or other assets that are being securitized, (e) remoteness of those assets from the originator or transferor, (f) the adequacy of and ability to realize upon any related collateral, and (g) the capability of the servicer of the securitized assets.

Structured finance securities are typically separated into groupings known as "tranches", representing different degrees of credit quality. The higher rated tranches have a greater degree of protection and pay lower interest rates. The lower rated tranches pay higher interest rates, but are exposed to greater risk: if the underlying borrowers default, the entire investment may be lost.

Risks Related to Investments in CDS Positions. The Investment Manager expects Portfolio Managers to invest in CDS positions. Investments in CDS positions will expose Portfolio Investments to various risks, certain of which are described below.

Counterparty Risk. A Portfolio Investment is inherently exposed to "**Counterparty Risk**" when it enters into a CDS position. There is a risk that the counterparty may default on its obligations under the CDS. Such Portfolio Investment will also be exposed to the Counterparty Risk associated with the asset, or pool of assets, that underlies the CDS, for instance that the underlying asset or its counterparty may default and thus trigger obligations pursuant to the CDS. No assurance can be made that a counterparty default will not cause the Portfolio Investment, and therefore the Partnership, to incur losses.

Liquidity Risk. Over-the-counter traded contracts such as CDS present a "**Liquidity Risk**". Liquidity in credit derivatives markets is still currently limited due to the lack of a deep dealer market, which may make it difficult to price transactions and liquidate positions. Moreover, unlike exchange traded contracts (such as futures)—where the exchange ensures trade settlement by functioning as a clearing house—it may not always be possible for the relevant Portfolio Investment to locate a buyer in order to liquidate a position. Liquidity Risk is especially present during a Credit Event (as defined below).

Market Risk. With regards to CDS positions, "**Market Risk**" arises from adverse changes in the market value of the instrument or its underlying assets. In the CDS market, some participants will enter into CDS positions as end-users, while others will trade credit protection (both buying and selling) on the same underlying asset. Large institutions regularly enter into the market as end-users for the purpose of protecting against credit risk to which they are otherwise exposed. Despite the large size of these positions, this buy-and-hold strategy has nominal market effect when the party enters into the position. However, what is known as a "**Credit Event**" most often occurs when an asset underlying a CDS position defaults or when a smaller underlying asset defaults and causes a chain reaction of defaults (other types of Credit Events include bankruptcy, obligation acceleration, failure to pay, repudiation/moratorium and restructuring). When a major Credit Event occurs, CDS markets may become extremely volatile because large protective CDS positions may require immediate physical settlement. This volatility is compounded by the fact that many of the counterparties of these large positions are themselves relying on physical settlement of other CDS positions to which they are counterparty.

Thus, in a Credit Event, because many positions must be physically settled and the significant number of counterparties potentially involved, the aggregate amount of CDS positions that may potentially require liquidation may cause a radical change in value of certain CDS positions and result in heightened realization of market-wide Credit Risk and Liquidity Risk. The confluence of these factors may adversely impact the value of the relevant Portfolio Investment's portfolio. This type of Market Risk is especially present for market participants who take single name CDS positions because the assets underlying their positions are not as diversified as those with indices or baskets underlying them. No assurances can be made that such Portfolio Investment's positions will not be exposed to, and adversely impacted by, Market Risk.

Legal Risk. A CDS agreement is a contract and, as such, a Portfolio Investment is inherently exposed to "**Legal Risk**" when it enters into a CDS position. As a legally operative document, there is a risk that the CDS may be legally defective in some way so that it is not operative or will not be enforced by the governing jurisdiction. While the Investment Manager expects the relevant Portfolio Manager only to invest in highly standardized, liquid CDS positions which historically have posed minimal Legal Risk, no assurances can be made that every CDS to which the relevant Portfolio Investment is a party will, if challenged, be deemed enforceable by the controlling legal jurisdiction.

Credit Risk. Because many transactions in which Portfolio Investments will engage involve instruments that are not traded on an exchange but are instead traded between counterparties based on contractual relationships, such Portfolio Investments are subject to the risk that a counterparty will not perform its obligations under the related contracts.

General Credit Risks Associated with Loans. While some loans held or acquired by a Portfolio Investment are intended to be collateralized, such Portfolio Investment may be exposed to losses resulting from default and foreclosure. Therefore, the value of the underlying collateral, the creditworthiness of the borrower and the priority of the lien are all of great importance. The Investment Manager cannot guarantee the adequacy of the protection of the Portfolio Investment's interests, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, the Investment Manager cannot assure that claims may not be asserted that might interfere with enforcement of the Portfolio Investment's rights. In the event of a foreclosure, the Portfolio Investment or an affiliate may assume direct ownership of the underlying asset. The liquidation proceeds upon sale of such asset may not satisfy the entire outstanding balance of principal and interest on the loan, resulting in a loss to the Portfolio Investment. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss.

Interest-Only Mortgage Loans. Portfolio Managers may invest in interest-only mortgage loans. Interest-only mortgage loans permit the borrowers to make monthly payments of only accrued interest for the first 60 or 120 months following origination. After such interest-only period, the borrower's monthly payment will be recalculated to cover both interest and principal so that the mortgage loan will amortize fully prior to its final payment date. Interest-only loans are relatively new to the non-prime mortgage sector. As a result, the long-term performance characteristics of these loans are largely unknown. If the monthly payment increases, the related borrower may not be able to pay the increased amount and may default or may refinance the related mortgage loan to avoid the higher payment. Interest-only mortgage loans reduce the monthly payment required by borrowers during the interest-only period and consequently the monthly housing expense used to qualify borrowers. As a result, the interest-only mortgage loans may allow some borrowers that would not otherwise qualify for a fully amortizing mortgage loan to qualify or may allow them to qualify for a larger mortgage loan than otherwise would be the case.

Credit Scores May Not Accurately Predict the Performance of the Mortgage Loans. The Investment Manager and certain Portfolio Managers may rely on credit scores as part of their respective due diligence process. Credit scores are obtained by many lenders in connection with mortgage loan applications to help them assess a borrower's creditworthiness. Credit scores are generally generated by models developed by a third party that analyze data on consumers in order to establish patterns that are believed to be indicative of the borrower's probability of default over a two-year period. The credit score is based on a borrower's historical credit data, including, among other things, payment history, delinquencies on accounts, levels of outstanding indebtedness, length of credit history, types of credit, and bankruptcy experience. Credit scores range from approximately 250 to approximately 900, with higher scores indicating an individual with a more favorable credit history compared to an individual with a lower score. However, a credit score purports only to be a measurement of the relative degree of risk a borrower represents to a lender (i.e., a borrower with a higher score is statistically expected to be less likely to default in payment than a borrower with a lower score). Lenders have varying ways of analyzing credit scores and, as a result, the analysis of credit scores across the industry is not consistent. In addition, it should be noted that credit scores were developed to indicate a level of default probability over a two-year period, which does not correspond to the life of a mortgage loan. Furthermore, credit scores were not developed specifically for use in connection with mortgage loans, but for consumer loans in general, and assess only the borrower's past credit history. Therefore, a credit score does not take into consideration the effect of mortgage loan characteristics (which may differ from consumer loan characteristics) on the probability of repayment by the borrower. There can be no assurance that the credit scores of the mortgagors will be an accurate predictor of the likelihood of repayment of the related mortgage loans.

Claims of Lender Liability and Equitable Subordination. Portfolio Investments could be subject to allegations of lender liability or "equitable subordination." The common law principle of lender liability is based upon the premise that an institutional lender has violated an implied or contractual duty of good faith and fair dealing owed to the borrower or a fiduciary duty owed to the borrower, its other creditors or shareholders as a result of the lending institution assuming a certain degree of control over the borrower through any loans that it has made. Moreover, under common law principles that in some cases form the basis for lender liability claims, if a lending institution (i) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control a borrower to the detriment of other creditors of such borrower, a court, in its discretion, may elect to subordinate the claim of the offending lending institution to the claims of the disadvantaged creditor or creditors, a remedy called "equitable subordination." A Portfolio Investment may make an investment in which such Portfolio Investment will not be the lead creditor. Accordingly, it is possible for claims of lender liability or equitable subordination to affect such Portfolio Investment's investments without it being directly involved.

Servicing of Loans. Most residential mortgage loans and securitizations of residential mortgage loans require a servicer to manage collections on each of the underlying loans. A servicer's responsibilities may include providing delinquency notices when necessary, loan workouts and modifications, foreclosure proceedings, short sales, liquidations of REOs acquired as a result of foreclosures of mortgage loans, and reporting on the performance of the loans. Both default frequency and default severity of loans may depend upon the quality of the servicer. If the servicers retained by the Portfolio Managers are not vigilant in encouraging borrowers to make their monthly payments, the borrowers may be far less likely to make these payments, which could result in a higher frequency of default. If such servicers take longer to liquidate non-performing assets, loss severities may tend to be higher than originally anticipated. Higher loss severity may also be caused by less competent dispositions of REO properties. The Investment Manager believes that the ability of servicers to effectively service the applicable portfolios of mortgage loans is critical to the success of the Portfolio Investments.

Servicer quality is of prime importance in the default performance of residential mortgage loans and RMBS. Many servicers have gone out of business in recent years, requiring a transfer of servicing to another servicer. This transfer takes time and loans may become delinquent because of confusion or lack of attention. When servicing is transferred, servicing fees may increase which may have an adverse effect on the credit support of RMBS held by the Portfolio Investments. In the case of pools of securitized loans, servicers may be required to advance interest on delinquent loans to the extent the servicer deems such advances recoverable. In the event the servicer does not advance, interest may be interrupted even on more senior securities. Servicers may also advance more than is in fact recoverable once a defaulted loan is disposed, and the loss to the trust may be greater than the outstanding principal balance of that loan (greater than 100% loss severity).

Real Estate Risk. The value of the real estate which underlies mortgage loans is subject to market conditions. Changes in the real estate market may adversely affect the value of the collateral and thereby lower the value to be derived from liquidation. In addition, adverse changes in the real estate market increase the probability of default, as the incentive of the borrower to retain equity in the property declines. Furthermore, the properties which will secure loans acquired by a Portfolio Investment may be suffering varying degrees of financial distress or may be located in economically distressed areas. Loans may become non-performing for a wide variety of reasons and may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate, capitalization of interest payments and a substantial write-down of the principal of the loan. However, even if such restructuring were successfully accomplished, a risk exists that upon maturity of such mortgage loan, replacement "take-out" financing will not be available.

It is possible that a Portfolio Investment may find it necessary or desirable to foreclose on certain real estate loans. The real estate foreclosure process is often lengthy and expensive. Borrowers may resist mortgage foreclosure actions by asserting numerous claims, counterclaims and defenses against such Portfolio Investment, including, without limitation, numerous lender liability claims and defenses, even when such assertions may have no basis in fact, in an effort to prolong the foreclosure action and force the lender into a modification of the loan or a favorable buy-out of the borrower's position. In some states, foreclosure actions can sometimes take several years or more to litigate. At any time prior to or during the foreclosure proceedings the borrower may file for bankruptcy, which would have the effect of staying the foreclosure actions and further delaying the foreclosure process. Foreclosure litigation tends to create a negative public image of the mortgaged property and may result in disrupting the ongoing leasing, management and operation of the property.

Real Estate Industry Considerations. The Investment Manager expects that some Portfolio Investments may acquire loans collateralized by real estate. Therefore, an investment in a Portfolio Investment is subject to certain risks associated with the real estate industry in general. These risks include, among others: (i) possible declines in the value of real estate; (ii) risks related to general and local economic conditions; (iii) possible lack of availability of mortgage funds; (iv) overbuilding; (v) extended vacancies of properties; (vi) increases in competition, property taxes and operating expenses; (vii) changes in zoning laws; (viii) costs resulting from the clean-up of, and liability to third parties for damages resulting from, environmental problems; (ix) casualty or condemnation losses; (x) inadequate insurance coverage, the failure of an insurer to pay on a claim or the insolvency of an insurer; (xi) risks from floods, hurricanes, earthquakes or other natural disasters, including uninsured damages and re-designation of previously designated "non-flood" areas; (xii) risks of future terrorist attacks; (xiii) limitations on and variations in rents; and (xiv) changes in interest rates. To the extent that a Portfolio Investment's investments, or the assets underlying or collateralizing such investments, are concentrated geographically, by property type or in certain other respects, such Portfolio Investment may be subject to certain of the foregoing risks to a greater extent.

Environmental Hazards. Under environmental laws enacted by federal and state governments, owners of property may be liable for the clean up and removal of hazardous substances even where the present owner was not responsible for placing the hazardous substances on the property or where the property was contaminated prior to the time the owner took title. A Portfolio Investment could incur substantial costs and suffer a complete loss of its investment in such property as well as other assets.

Participations. A Portfolio Investment may participate in a loan originated by a third party lender. Such investments may involve risks not present in investments where a third party is not involved, including the possibility that the third party may at any time have economic or business interests or goals that are inconsistent with those of such Portfolio Investment, or may be in a position to take action contrary to such Portfolio Investment's investment objectives. In addition, a Portfolio Investment may be liable for actions of its co-lenders. When a Portfolio Investment engages in such indirect investments, fees may be payable to such third parties by such Portfolio Investment, a portion of which will come from the Partnership.

Risks of Investment in Private Companies. A Portfolio Investment may invest in financial instruments issued by privately-held companies, and operating results in a specified period will be difficult to predict. Such investments involve a high degree of business and financial risk which can result in substantial losses.

Risks Associated with Restricted Equity Securities. From time to time, a portion of a Portfolio Investment's portfolio may be devoted to restricted equity securities. Some risks specifically associated with these types of investments include the following:

Liquidity Risk. A Portfolio Investment's returns will depend upon its ability to sell in the public market the restricted equity securities. The Portfolio Investment will be able to sell those securities only when a resale registration statement covering the securities is effective or under Rule 144 of the Securities Act ("**Rule 144**"). The issuer typically must file a registration statement shortly after the transaction has closed. However, the effectiveness of that registration may be delayed by various events or circumstances, including, for example, a lengthy SEC review of the registration statement or regulatory inquiries into the issuer. That effectiveness, and the ability to sell under Rule 144, may also be delayed or interrupted if the issuer fails to timely file all reports required by the Securities Exchange Act of 1934, as amended, or if the issuer fails to meet certain types of financial obligations. Although related documents may require the issuer to pay damages to purchasers if the resale registration statement is not effective within a certain period of time, there is no assurance that the registration statement will become effective, that the Portfolio Investment will be able to sell the securities, or that it will be able to recover the specified damages. Even after a resale registration statement becomes effective, the Portfolio Investment's ability to sell the securities may be limited by market and other conditions, and it may take longer for the Portfolio Investment to realize returns than originally anticipated.

Contractual Risk. The Portfolio Investment will typically enter into contracts with issuers of restricted equity securities which require, among other things, the issuer to file a registration statement shortly after the transaction closes. If an issuer were to fail to honor its contractual obligations, it could have a substantially negative impact on the Portfolio Investment's performance, and the Portfolio Investment will be responsible for bearing the costs of seeking injunctive and/or legal relief against the issuer.

Valuation Risk. During the period before the effective date of the resale registration statement, the restricted equity securities and other instruments that the Portfolio Investment acquired through the transaction will be valued in accordance with the valuation methodology of such Portfolio Investment. Because issuers often are small capitalization companies and characterized by financial uncertainty, information about them on which to base valuation judgments is often less readily available than is information about other securities and their issuers. If an issuer's financial condition were to deteriorate, accurate financial and business information could become even more limited or entirely unavailable. As a result of these and other factors, there can be no assurance that the valuation of the Portfolio Investment's restricted equity securities reflected in the Portfolio Investment's records will accurately reflect the value the Portfolio Investment could realize if it were to sell the securities. Any inaccuracies could cause the Portfolio Investment to experience significant losses.

Regulatory Compliance of Issuer. An issuer may be required under some circumstances to obtain prior approval for the transaction from its shareholders and/or the securities exchange on which the issuer's common stock is listed. An issuer must also comply with applicable private offering regulations. If the issuer were to fail to comply with applicable requirements, it is possible that, among other things, the relevant exchange could cause the delisting of the company's securities and, effectively, the loss of the Portfolio Investment's investment. In the course of the Partnership's investment in such Portfolio Investment, regulations may be enacted, or SEC actions may be taken, that affect the Portfolio Investment's ability to obtain liquidity or to profit from the investment.

Risk of Regulatory Scrutiny and Legal Proceedings. Investment activities in connection with certain types of restricted equity securities are becoming the subject of increased scrutiny by the SEC and other regulators. It is possible that the Portfolio Investment could become involved in an inquiry regarding its investment activities. Such inquiries may entail significant costs, which would be borne by the Portfolio Investment.

Underwriter Risk. It is possible that, in reselling restricted equity securities, the Portfolio Investment could be deemed an "underwriter" within the meaning of the Securities Act. Underwriters are subject to various securities law requirements and may be deemed responsible for the accuracy of the information contained in a resale registration statement, possibly subjecting the Portfolio Investment to liability for any inaccuracies, misstatements or omissions.

Transaction Costs. In entering into a transaction involving restricted equity securities, the Portfolio Investment may be required to conduct substantial due diligence on the issuer and to review and negotiate certain documents and agreements. These activities may increase the Portfolio Investment's transaction costs, relative to transaction costs relating to investments in typical publicly-traded securities.

Leverage. When appropriate and subject to applicable regulations, the Portfolio Managers may use leverage in their investment programs and may use certain types of options, such as puts, calls and warrants, which may be purchased for a fraction of the price of the underlying securities while giving the purchaser the full benefit of movement in the market of those underlying securities. While such strategies and techniques increase the opportunity to achieve higher returns on the amounts invested, they also increase the risk of loss. To the extent the Portfolio Managers purchase securities with borrowed funds, their net assets will tend to increase or decrease at a greater rate than if borrowed funds are not used. The level of interest rates generally, and the rates at which such funds may be borrowed in particular, could affect the operating results of the Portfolio Investments. If the interest expense on borrowings were to exceed the net return on the investments made with borrowed funds, the use of leverage would result in a lower rate of return than if the relevant Portfolio Manager were not leveraged.

Certain of the Portfolio Managers' trading and investment activities in securities and other financial instruments may be subject to the Federal Reserve Board ("**FRB**") margin requirements, which are computed each day. At present, the FRB's Regulation T permits a broker to lend no more than 50% of the purchase price of "margin stock" bought by a customer. When the market value of a particular open position changes to a point where the margin on deposit does not satisfy maintenance margin requirements, a "margin call" on the customer is made. If the customer does not deposit additional funds with the broker to meet the margin call within a reasonable time, the customer's position may be closed out. In the event of a precipitous drop in the value of the assets managed by a Portfolio Manager, it might not be able to liquidate assets quickly enough to pay off the margin debt and might suffer mandatory liquidation of positions in a declining market at relatively low prices, incurring substantial losses. With respect to these trading activities, the Portfolio Manager will be subject to margin calls.

Overall, the use of leverage, while providing the opportunity for a higher return on investments, also increases the volatility of such investments and the risk of loss. Investors should be aware that an investment program utilizing leverage is inherently more speculative, with a greater potential for losses, than a program that does not utilize leverage.

Short Sales. A Portfolio Manager may sell a Portfolio Investment's securities short. Short selling involves the sale of a security that a Portfolio Investment does not own and must borrow in order to make delivery in the hope of purchasing the same security at a later date at a lower price. In order to make delivery to its purchaser, such Portfolio Investment must borrow securities from a third party lender. Theoretically, securities sold short are subject to unlimited risk of loss because there is no limit on the price that a security may appreciate before the short position is closed. In addition, the supply of securities that can be borrowed fluctuates from time to time. The Portfolio Investment may be subject to losses if a security lender demands return of the lent securities and an alternative lending source cannot be found.

Options and Other Derivative Instruments. The Portfolio Managers may invest the Portfolio Investments' assets in derivative instruments. The prices of many derivative instruments, including many options and swaps, are highly volatile. Price movements of options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The value of options and swap agreements also depends upon the price of the securities, currencies or other assets underlying them. The Portfolio Investments are also subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses or of counterparties. The cost of options is related, in part, to the degree of volatility of the underlying securities, currencies or other assets. Accordingly, options on highly volatile securities, currencies or other assets may be more expensive than options on other investments.

Put options and call options typically have similar structural characteristics and operational mechanics regardless of the underlying instrument or asset on which they are purchased or sold. A put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the writer the obligation to buy, the underlying security, commodity, index, currency or other instrument or asset at the exercise price. A call option, upon payment of a premium, gives the purchaser of the option the right to buy, and the seller the obligation to sell, the underlying instrument or asset at the exercise price.

If a put or call option purchased by a Portfolio Investment were permitted to expire without being sold or exercised, the Portfolio Investment would lose the entire premium it paid for the option. The risk involved in writing a put option is that there could be a decrease in the market value of the underlying instrument or asset caused by rising interest rates or other factors. If this occurred, the option could be exercised and the underlying instrument or asset would then be sold to the Portfolio Investment at a higher price than its current market value. The risk involved in writing a call option is that there could be an increase in the market value of the underlying instrument or asset caused by declining interest rates or other factors. If this occurred, the option could be exercised and the underlying instrument or asset would then be sold by the Portfolio Investment at a lower price than its current market value.

Purchasing and writing put and call options and, in particular, writing "uncovered" options are highly specialized activities and entail greater than ordinary investment risks. In particular, the writer of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying instrument or asset above the exercise price of the option. This risk is enhanced if the instrument or asset being sold short is highly volatile and there is a significant outstanding short interest. These conditions exist in the stocks of many companies. The instrument or asset necessary to satisfy the exercise of the call option may be unavailable for purchase, except at much higher prices. Purchasing instruments or assets to satisfy the exercise of the call option can itself cause the price of the instruments or assets to rise further, sometimes by a significant amount, thereby exacerbating the loss. Accordingly, the sale of an uncovered call option could result in a loss by a Portfolio Investment of all or a substantial portion of its assets.

Swaps and certain options and other custom instruments are subject to the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty.

Hedging Transactions. Investments in financial instruments, such as forward contracts, options, commodities and interest rate swaps, caps and floors, and CDS, LCDS, CDX, LCDX and ABX contracts, and other derivatives are commonly utilized by investment funds to hedge against fluctuations in the relative values of their portfolio positions as a result of changes in currency exchange rates, interest rates and/or the equity markets or sectors thereof. Any hedging against a decline in the value of portfolio positions does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same developments, thus moderating the decline in the portfolio positions' value. Such hedging transactions also limit the opportunity for gain if the value of the portfolio positions should increase. Moreover, it may not be possible for a Portfolio Investment to hedge against a fluctuation at a price sufficient to protect the Portfolio Investment's assets from the decline in value of the portfolio positions anticipated as a result of such fluctuations. For example, the cost of options is related, in part, to the degree of volatility of the underlying instruments or assets. Accordingly, options on highly volatile instruments or assets may be more expensive than options on other instruments or assets and of limited utility in hedging against fluctuations in their prices.

The Portfolio Managers are not obligated to establish hedges for portfolio positions and may not do so. To the extent that hedging transactions are effected, their success is dependent on the ability of the Portfolio Managers to correctly predict movements in the direction of currency and interest rates and the equity markets or sectors thereof.

Market or Interest Rate Risk. The price of most fixed income securities move in the opposite direction of the change in interest rates. For example, as interest rates rise, the prices of fixed income securities fall. If a Portfolio Investment holds a fixed income security to maturity, the change in its price before maturity may have little impact on the Portfolio Investment's performance; however, if the Portfolio Investment has to sell the fixed income security before the maturity date, an increase in interest rates could result in a loss to the Portfolio Investment. With respect to the securities held by the Portfolio Investments, the likelihood of default on the underlying mortgage loans may increase when interest rates rise.

Inflation Risk. Inflation risk results from the variation in the value of cash flows from a security due to inflation, as measured in terms of purchasing power. For example, if a Portfolio Investment purchases a 5-year bond in which it can realize a coupon rate of 5%, but the rate of inflation is 6%, then the purchasing power of the cash flow has declined. For all fixed income instruments other than inflation-linked bonds, adjustable bonds or floating rate bonds, the Portfolio Investment, and therefore the Partnership, is exposed to inflation risk because the interest rate the issuer promises to make is fixed for the life of the security. To the extent that interest rates reflect the expected inflation rate, floating rate bonds have a lower level of inflation risk.

Investments in Non-U.S. Investments. Although the Investment Manager expects most or all of the securities and loans in which Portfolio Managers invest to be issued by U.S.-domiciled issuers or backed by underlying assets located in the United States, certain Portfolio Managers may invest and trade a portion of the Portfolio Investment's assets in non-U.S. securities and other assets (through ADRs and otherwise), which will give rise to risks relating to political, social and economic developments abroad, as well as risks resulting from the differences between the regulations to which U.S. and non-U.S. issuers and markets are subject. Such risks may include:

- Political or social instability, the seizure by foreign governments of company assets, acts of war or terrorism, withholding taxes on dividends and interest, high or confiscatory tax levels, and limitations on the use or transfer of portfolio assets.
- Enforcing legal rights in some foreign countries is difficult, costly and slow, and there are sometimes special problems enforcing claims against foreign governments.
- Non-U.S. securities and other assets often trade in currencies other than the U.S. dollar, and the Portfolio Investments may directly hold foreign currencies and purchase and sell foreign currencies through forward exchange contracts. Some foreign currencies are particularly volatile. Foreign governments may intervene in the currency markets, causing a decline in value or liquidity of the Portfolio Investment's foreign currency holdings. If a Portfolio Investment enters into forward foreign currency exchange contracts for hedging purposes, it may lose the benefits of advantageous changes in exchange rates. On the other hand, if a Portfolio Investment enters forward contracts for the purpose of increasing return, it may sustain losses.
- Non-U.S. securities, commodities and other markets may be less liquid, more volatile and less closely supervised by the government than in the United States. Foreign countries often lack uniform accounting, auditing and financial reporting standards, and there may be less public information about the operations of issuers in such markets.

Illiquid Investments by Portfolio Investments. A portion of the investments made by a Portfolio Investment may be in illiquid securities or direct loans, which are difficult to value and, therefore, could affect the ability of such Portfolio Investment to meet withdrawal requests from the Partnership.

Risk of Default or Bankruptcy of Third Parties. The Portfolio Investments may engage in transactions in securities, financial instruments and other assets that involve counterparties. Under certain conditions, the Portfolio Investment could suffer losses if a counterparty to a transaction were to default or if the market for certain securities, financial instruments and/or assets were to become illiquid. In addition, the Portfolio Investment could suffer losses if there were a default or bankruptcy by certain other third parties, including brokerage firms and banks with which the Portfolio Investment does business, or to which securities, financial instruments and/or assets have been entrusted for custodial purposes.

Regulatory Risks

General Regulatory Risks. Statutes, regulations and policies are continually under review by the U.S. Congress and state legislatures and federal and state regulatory agencies. The introduction of new legislation or amendments to existing legislation and regulations (including changes in how they are interpreted or implemented) by governments, the decisions of courts and tribunals and the rulings and decisions of regulatory authorities, can adversely impact the Partnership's returns. The regulatory environment for private investment funds is evolving, and changes in the regulation of these funds may adversely affect the value of the Partnership's investments.

Regulatory Risks Related to Partnership Investments. Some of markets in which the Portfolio Investments invests are subject to comprehensive statutes, regulations and margin requirements. The SEC, other regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies.

In addition, the mortgage and home equity loans underlying RMBS are subject to a wide degree of regulation. In particular, in response to the current financial crisis, a range of legislation and regulatory change has been proposed to provide relief to troubled borrowers of (and other creditors on) the residential real estate loans held by RMBS issuers. For example, certain proposals would result in significant unilateral changes to the economic terms of mortgage and home equity loans, including those resulting in reduced interest rates, extended payment periods, and even "cram-downs" on the outstanding principal amount of such loans. Depending on the relief proposed, such terms might reflect lower underlying property values, the economic distress of borrowers and many other factors.

The effect of any future regulatory change, specifically with respect to RMBS, on the Partnership could be substantial and adverse.

Strategy Restrictions. Certain institutions may be restricted from directly utilizing investment strategies of the type in which the Partnership may engage. Such institutions, including entities subject to ERISA, should consult their own advisors, counsel and accountants to determine what restrictions may apply and whether an investment in the Partnership is appropriate.

Lack of Regulatory Oversight. The Partnership's investments are not supervised or monitored by any regulatory authority. The Partnership is not registered as an "investment company" under the Investment Company Act. Neither the General Partner nor the Investment Manager is registered as an investment adviser under the Investment Advisers Act of 1940, as amended, or under any state laws, and the Investment Manager is not registered as a commodity pool operator under the Commodity Exchange Act, as amended, based upon an exemption available under Rule 4.13(a)(4) thereunder. Consequently, Limited Partners will not benefit from some of the protections afforded by these statutes, including oversight by the SEC or the Commodity Futures Trading Commission.

Tax Risk. The tax aspects of an investment in the Partnership are complicated and each investor should have them reviewed by professional advisors familiar with such investor's personal tax situation and with the tax laws and regulations applicable to the investor and private investment vehicles. The Partnership is not intended and should not be expected to provide any tax shelter, but is organized as a limited partnership to permit any distributions it might make to be made without being taxed as dividends. You should review the section entitled "TAXATION" for a more complete discussion of certain of the tax risks inherent in the acquisition of Interests.

Tax-Exempt Entities. Certain prospective Limited Partners may be subject to federal and state laws, rules and regulations that may regulate their participation in the Partnership, or their engaging, directly or indirectly through an investment in the Partnership, in investment strategies of the types that the Partnership utilizes from time to time. Each type of tax-exempt organization may be subject to different laws, rules and regulations, and prospective Limited Partners should consult with their own advisors as to the advisability and tax consequences of an investment in the Partnership. In particular, tax-exempt organizations should consider the applicability to them of the provisions relating to UBTI (as defined below). Investments in the Partnership by entities subject to ERISA and other tax-exempt entities require special consideration. See "ERISA CONSIDERATIONS" and "TAXATION — Tax-Exempt Investors".

CONFLICTS OF INTEREST

No Obligation of Full-Time Service. None of the General Partner, the Investment Manager or any of the Principals is required to manage the Partnership as its sole and exclusive function. Each is only required to devote such time to the Partnership as the General Partner deems necessary to accomplish the purposes of the Partnership, and each may engage in other business activities, including competing ventures and/or other unrelated employment, which may result in various conflicts of interest between such person and the Partnership. See "MANAGEMENT".

Advisory Services to Others. In addition to managing the Partnership and its investments, each of the General Partner, the Investment Manager, the Principals and the Investment Manager Affiliates may provide investment management and other services to other parties and may manage other accounts and/or establish other private investment funds in the future (both domestic and offshore), including those that may employ an investment program and strategy similar to that of the Partnership ("**Affiliated Funds**"). Specifically, the Principals, the Investment Manager and certain Investment Manager Affiliates provide investment management and other services to the PE Fund and the Hedge Fund, both of which employ a similar investment strategy to that of the Partnership. The investments made by Affiliated Funds or other client accounts that may be managed by the General Partner, the Investment Manager, the Principals and/or the Investment Manager Affiliates in the future may compete with investments for the Partnership's account. If a certain investment is deemed to be suitable for acquisition by the Partnership and by these Affiliated Funds or accounts, and the General Partner, the Investment Manager, the Principals and/or the Investment Manager Affiliates are not able to acquire the desired aggregate amount of such investment on terms and conditions that they deem advisable, they will endeavor to allocate in good faith the limited amount of such investment and may decide to invest the funds of the Affiliated Funds or clients rather than the assets of the Partnership in such investment. The General Partner, the Investment Manager and/or such other persons will determine the allocation of funds from the Partnership and such Affiliated Funds and clients to investment strategies and techniques on whatever basis they decide is appropriate. The records of these Affiliated Funds and clients will not be made available to Limited Partners.

Diverse Limited Partners. The Limited Partners may include taxable and tax-exempt entities and persons or entities resident of or organized in various jurisdictions. As a result, conflicts of interest may arise in connection with decisions made by the General Partner that may be more beneficial for one type of Limited Partner than for another. In making such decisions, the General Partner intends to consider the investment objectives of the Partnership as a whole, not the investment objectives of any Limited Partner individually.

Referrals of Investors. The General Partner and/or the Investment Manager may sell Interests through broker-dealers, placement agents and other persons and pay a marketing fee or commission in connection with such activities, including ongoing payments, at the General Partner's or the Investment Manager's own expense, including arrangements with such effect in the form of fee-sharing. Such persons may have a conflict of interest in advising prospective investors whether to purchase Interests.

Lack of Separate Representation. Neither the Partnership Agreement nor any of the agreements, contracts and arrangements between the Partnership, on the one hand, and the General Partner and/or the Investment Manager, on the other hand, were or will be the result of arm's-length negotiations. The attorneys, accountants and others who have performed services for the Partnership in connection with this offering, and who will perform services for the Partnership in the future, have been and will be selected by the General Partner. No independent counsel has been retained to represent the interests of prospective investors or Limited Partners, and the Partnership Agreement has not been reviewed by any attorney on their behalf. You are therefore urged to consult your own counsel as to the terms and provisions of the Partnership Agreement and all subscription and other related documents.

Valuation of Assets. Net Asset Value determinations are made by the Administrator, based on valuations provided by the General Partner or the Investment Manager. In the case of investments in Portfolio Investments, which investments are expected to constitute most of the Partnership's assets, the Net Asset Value calculation provided by the relevant Portfolio Managers (or any affiliates or service providers thereof) of such Portfolio Investments will generally be used in determining the Partnership's Net Asset Value. Such calculations could be incorrect, delayed or subject to significant adjustments, any of which events could adversely affect the valuation of the Partnership's investments. None of the General Partner, the Investment Manager or any of their respective affiliates will be responsible for calculating the Net Asset Value of the Portfolio Investments or for verifying the accuracy and completeness of any such values received. Notwithstanding the foregoing, the Administrator will value any Portfolio Investment that is a publicly-traded security. All other assets of the Partnership, and all assets in Side Pocket Accounts, will be valued as the General Partner may reasonably determine in consultation with such industry professionals and other third parties, if any, as the General Partner deems appropriate. The Investment Manager has a conflict of interest in that it will receive a higher Management Fee if the assets are given a favorable valuation. See "SUMMARY OF PARTNERSHIP TERMS — Determination of Net Asset Value".

The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in the Partnership. Offerees should read this entire Memorandum and the Partnership Agreement and consult with their own advisors before purchasing Interests.

ERISA CONSIDERATIONS

An investment of employee benefit plan assets in the Partnership may raise issues under ERISA and the U.S. Internal Revenue Code of 1986, as amended ("**Code**"). Certain of these issues are described below.

GENERAL FIDUCIARY MATTERS

ERISA and the Code impose certain duties on persons who are fiduciaries of a Plan (as defined below) and prohibit certain transactions involving the assets of a Plan and its fiduciaries or other interested parties. Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of a Plan, or the management or disposition of the assets of a Plan, or who renders investment advice for a fee or other compensation to a Plan, is generally considered to be a fiduciary of the Plan.

In considering an investment in the Partnership of a portion of the assets of any employee benefit plan (including a "Keogh" plan) subject to the fiduciary and prohibited transaction provisions of ERISA or the Code or similar provisions under applicable state law (collectively, a "**Plan**"), a fiduciary should determine, in light of the high risks and lack of liquidity inherent in an investment in the Partnership, whether the investment is in accordance with the documents and instruments governing the Plan and the applicable provisions of ERISA or similar law relating to a fiduciary's duties to the Plan. Furthermore, absent an exemption, the fiduciaries of a Plan should not purchase Interests with the assets of any Plan if the General Partner or any affiliate thereof is a fiduciary or other "party in interest" or "disqualified person" (collectively, a "**party in interest**") with respect to such Plan.

PLAN ASSETS

Regulations promulgated under ERISA by the U.S. Department of Labor ("**Plan Asset Regulations**") generally provide that when a Plan subject to Title I of ERISA or Section 4975 of the Code acquires an equity interest in an entity that is neither a "publicly-offered security" nor a security issued by an investment company registered under the Investment Company Act, the Plan's assets include both the equity interest and an undivided interest in each of the underlying assets of the entity unless it is established either that equity participation in the entity by "benefit plan investors" is not "significant" or that the entity is an "operating company", in each case as defined in the Plan Asset Regulations. For purposes of the Plan Asset Regulations, equity participation in an entity by benefit plan investors will not be "significant" if they hold, in the aggregate less than 25%, directly or indirectly, of the value of any class of such entity's equity, excluding equity interests held by persons (other than a benefit plan investor) with discretionary authority or control over the assets of the entity or who provide investment advice for a fee (direct or indirect) with respect to such assets, and any affiliates thereof. For purposes of this 25% test ("**Benefit Plan Investor Test**"), "benefit plan investors" include employee benefit plans subject to the provisions of Part 4 of Title I of ERISA, and plans subject to Section 4975 of the Code, including "Keogh" plans and individual retirement accounts ("**IRAs**"). The following are not included in the definition of a "benefit plan investor": pension plans maintained by foreign corporations, governmental plans, and certain church plans. Thus, absent satisfaction of another exception under the Plan Asset Regulations, if 25% or more of the value of any class of Interests of the Partnership were held by benefit plan investors, an undivided interest in each of the underlying assets of the Partnership would be deemed to be "plan assets" of any Plan subject to Title I of ERISA or Section 4975 of the Code that invested in the Partnership.

The Interests will not constitute "publicly offered" securities or securities issued by an investment company registered under the Investment Company Act, and it is not expected that the Partnership will qualify as an "operating company" under the Plan Asset Regulations. Consequently, the General Partner intends to use reasonable efforts either to prohibit Plans subject to Title I of ERISA or Section 4975 of the Code from investing in the Partnership or to provide that investment by benefit plan investors in the Partnership will not be "significant" for purposes of the Plan Asset Regulations by limiting equity participation by benefit plan investors in the Partnership to less than 25% of the value of any class of Interests in the Partnership as described above. However, each Plan fiduciary should be aware that even if the Benefit Plan Investor Test were met at the time a Plan acquires Interests in the Partnership, the exemption could become unavailable at a later date as a result, for example, of subsequent transfers or withdrawals of Interests in the Partnership, and that Interests held by benefit plan investors may be subject to mandatory withdrawal in such event in order to continue to meet the Benefit Plan Investor Test.

Furthermore, there can be no assurance that notwithstanding the reasonable efforts of the Partnership, the Partnership will satisfy the Benefit Plan Investor Test, that the structure of particular investments of the Partnership will otherwise satisfy the Plan Asset Regulations or that the underlying assets of the Partnership will not otherwise be deemed to include ERISA plan assets.

PLAN ASSET CONSEQUENCES

If the assets of the Partnership were deemed to be "plan assets" under ERISA, (i) the prudence and other fiduciary responsibility standards of ERISA would extend to investments made by the Partnership, and (ii) certain transactions in which the Partnership might seek to engage could constitute "prohibited transactions" under ERISA and the Code. If a prohibited transaction occurs for which no exemption is available, the General Partner and any other fiduciary that has engaged in the prohibited transaction could be required (x) to restore to the Plan any profit realized on the transaction and (y) to reimburse the Plan for any losses suffered by the Plan as a result of the investment. In addition, each party in interest involved could be subject to an excise tax equal to 15% of the amount involved in the prohibited transaction for each year the transaction continues and, unless the transaction is corrected within statutorily required periods, to an additional tax of 100%. Plan fiduciaries that decide to invest in the Partnership could, under certain circumstances, be liable for prohibited transactions or other violations as a result of their investment in the Partnership or as co-fiduciaries for actions taken by or on behalf of the Partnership or the General Partner. With respect to an IRA that invests in the Partnership, the occurrence of a prohibited transaction involving the individual who established the IRA, or his or her beneficiaries, could cause the IRA to lose its tax-exempt status.

Under the Partnership Agreement, the General Partner has the power to take certain actions to avoid having the assets of the Partnership characterized as plan assets including, without limitation, the right to exclude a Limited Partner from an investment or to compulsorily withdraw a Limited Partner's Interests in the Partnership. While the General Partner does not expect that it will need to exercise such power, it cannot give any assurance that such power will not be exercised.

Each Plan fiduciary should consult its own legal advisor concerning the considerations discussed above before making an investment in the Partnership.

INTRODUCTION

The following is a summary of certain aspects of the taxation of the Partnership and its Partners which should be considered by a potential purchaser of an Interest in the Partnership. A complete discussion of all tax aspects of an investment in the Partnership is beyond the scope of this Memorandum. The following summary is only intended to identify and discuss certain salient issues.

This summary of certain tax considerations applicable to the Partnership is considered to be a correct interpretation of existing laws and regulations in force on the date of this Memorandum. No assurance can be given that changes in existing laws or regulations or their interpretation will not occur after the date of this Memorandum or that any such future guidance or interpretation will not be applied retroactively.

The following summary is not intended as a substitute for careful tax planning. The tax matters relating to the Partnership are complex and are subject to varying interpretations. Moreover, the effect of existing income tax laws and of proposed changes in income tax laws on Partners will vary with the particular circumstances of each Partner. Accordingly, each prospective investor must consult with and rely solely on his or her professional tax advisors with respect to the tax results of his or her investment in the Partnership. In no event will the General Partner, its affiliates, counsel or other professional advisors be liable to any Limited Partner for any federal, state, local or other tax consequences of an investment in the Partnership, whether or not such consequences are as described below.

CLASSIFICATION OF THE PARTNERSHIP

Under the provisions of the Code and the Treasury regulations promulgated thereunder ("**Regulations**"), as in effect on the date of this Memorandum, so long as the Partnership complies with the Partnership Agreement, the Partnership should be classified for U.S. federal income tax purposes as a partnership and not as an association taxable as a corporation.

The Partnership has not sought and will not seek a ruling from the Internal Revenue Service ("**IRS**") with respect to its status as a partnership. If the Partnership should be classified as an association taxable as a corporation, the taxable income of the Partnership would be subject to corporate income taxation when recognized by the Partnership; and distributions from the Partnership to the Limited Partners would be treated as dividend income when received by the Limited Partners to the extent of the current or accumulated earnings and profits of the Partnership.

Certain partnerships may be taxable as corporations for U.S. federal income tax purposes under the publicly traded partnership rules set forth in the Code and the Regulations, and the Partnership will not qualify for one of the safe harbors under the Regulations if the Partnership has more than 100 Partners. The Partnership expects that under the facts and circumstances test set forth in the Regulations, the Interests will not be readily tradable on a secondary market (or the substantial equivalent thereof) and therefore, the Partnership will not be treated as a publicly traded partnership under the Regulations. It is assumed in the following discussion of tax considerations that the Partnership will be treated as a partnership for U.S. federal income tax purposes.

TAXATION OF PARTNERSHIP OPERATIONS

As a partnership, the Partnership is not itself subject to U.S. federal income tax but will file an annual partnership information return with the IRS. Each Limited Partner is required to report separately on his or her income tax return his or her distributive share of the Partnership's net long-term capital gain or loss, net short-term capital gain or loss, net ordinary income, deductions and credits. The Partnership will send annually to each Limited Partner a form showing his or her distributive share of the Partnership items of income, gain, loss deduction or credit.

Each Limited Partner will be subject to tax, and liable for such tax, on his or her distributive share of the Partnership's taxable income regardless of whether the Limited Partner has received or will receive any distribution of cash from the Partnership. Thus, in any particular year, a Limited Partner's distributive share of taxable income from the Partnership (and, possibly, the taxes imposed on that income) could exceed the amount of cash, if any, such Limited Partner received or is entitled to withdraw from the Partnership.

Under Section 704 of the Code, a Limited Partner's distributive share of any Partnership item of income, gain, loss deduction or credit is governed by the Partnership Agreement unless the allocation provided by the Partnership Agreement does not have "substantial economic effect". The Regulations promulgated under Section 704(b) of the Code provide certain "safe harbors" with respect to allocations which, under the Regulations, will be deemed to have substantial economic effect. The validity of an allocation which does not satisfy any of the "safe harbors" of these Regulations is determined by taking into account all facts and circumstances relating to the economic arrangements among the Partners. While no assurance can be given, the allocations provided by the Partnership Agreement should have substantial economic effect and should be sustained under the facts and circumstances test. However, if it were determined by the IRS or otherwise that the allocations provided in the Partnership Agreement with respect to a particular item do not have substantial economic effect, each Limited Partner's distributive share of that item would be determined for tax purposes in accordance with that Limited Partner's interest in the Partnership, taking into account all facts and circumstances.

Cash distributions and withdrawals, to the extent they do not exceed a Limited Partner's basis in his or her interest in the Partnership, should not result in taxable gain to that Limited Partner, but reduce the tax basis in the Interest by the amount distributed or withdrawn. Cash distributed to a Limited Partner in excess of the basis of his or her Interest is generally taxable either as capital gain or ordinary income, depending on the circumstances. A distribution of property other than cash generally will not result in taxable income or loss to the Limited Partner to whom it is distributed until such time that the property is sold.

In the event a Limited Partner withdraws all of the capital in its capital account from the Partnership (excluding any amount allocable to Side Pocket Accounts), the General Partner will have the discretion to specially allocate an amount of the Partnership's taxable gains or losses to the withdrawing Partner to the extent that the Partner's capital account exceeds, or is less than, its federal income tax basis in its Interest. However, there can be no assurances that the IRS will accept such a special allocation. If the special allocation were to be successfully challenged by the IRS, the Partnership's taxable gains or losses allocable to the remaining Partners would be increased.

Section 465 of the Code limits certain taxpayers' losses from certain activities to the amount they are "at risk" in the activities. Taxpayers subject to the "at risk" rules are individuals, an S corporation and certain closely-held corporations. The activities subject to the "at risk" limitations are all activities except the holding of real estate. A Partner subject to the "at risk" rules will not be permitted to deduct in any year losses arising from his interest in the Partnership to the extent the losses exceed the amount he is considered to have "at risk" in the Partnership at the close of that year.

A taxpayer is considered to be "at risk" in any activity to the extent of his cash contribution to the activity, his basis in other property contributed to the activity and his personal liability for repayments of amounts borrowed for use in the activity. With respect to amounts borrowed for use in the activity, the taxpayer is not considered to be "at risk" even if he is personally liable for repayment if the borrowing was from a person who has an "interest" in the activity other than an interest as a creditor. Even if a taxpayer is personally liable for repayment of amounts borrowed for use in the activity, and even if the amount borrowed is borrowed from a person whose only interest in the activity is an interest as a creditor, a taxpayer will not be considered "at risk" in the activity to the extent his investment in the activity is protected against loss through guarantees, stop loss agreements, or other similar arrangements.

Each Limited Partner will be at risk initially for the amount of his capital contribution. A Partner's amount "at risk" will be increased by his income from the Partnership and will be decreased by his losses from the Partnership and distributions to him. If a Partner's amount "at risk" decreases to zero, he can take no further losses until he has an "at risk" amount to cover the losses. A Partner is subject to a recapture of losses previously allowed to the extent that his amount "at risk" is reduced below zero (limited to loss amounts previously allowed to the Partner over any amounts previously recaptured). The potential recapture effects of distributions of Partnership debts, if any, are uncertain, and the ultimate interpretation of the new recapture mechanism may have adverse effects upon a Limited Partner.

Certain tax consequences of the Partnership's activities will depend upon whether the Partnership is engaged in a trade or business or is engaged in an investment activity. There is no statutory or regulatory definition of what constitutes engaging in a trade or business in general, nor what constitutes a trade or business of being in the lending business. The General Partner will make a determination, ultimately based on the application of all of the facts and circumstances that may exist at any relevant time, and there can be no assurance that the IRS will agree with such determination. If the Partnership is determined to be in a lending business: (1) debt obligations owned by the Partnership may be considered "inventory items" so that profit from the sale of an interest in the Partnership and income from cash distributions may be considered ordinary income; (2) losses attributable to bad debts may be deductible against ordinary income when the debt becomes wholly or partially worthless; and (3) foreclosure gains may be ordinary income. If the Partnership's activities do not constitute a trade or business, then: (1) fees and expenses will be considered itemized deductions subject to limitations on deductibility; and (2) losses attributable to bad debts will be deductible as capital losses when a debt obligation is extinguished or becomes worthless.

The taxation of debt obligations under the Code is complex; the following discussion is intended to provide only a general description of these rules. Generally, interest income and income items similar to income, such as original issue discount (in general, the annual portion of the discount on original issuance of debt obligations issued for less than their stated principal amount) and market discount (the amount by which debt obligations are acquired in the secondary market for less than their principal) are treated as items of ordinary income. Generally, debt obligations that are disposed of in a taxable transaction for an amount greater than their adjusted cost basis give rise to capital gain, which will be long-term if the debt obligation is held for longer than one year, and short-term, if held for a period of one year or less. Generally, debt obligations that are disposed of in a taxable transaction for an amount less than their adjusted cost basis give rise to capital loss, which will be long-term if the debt obligation is held for longer than one year, and short-term if held for a period of one year or less. In the event that any such debt obligations are not held as capital assets, such dispositions will generally give rise to ordinary gain or loss, as the case may be.

All loans held by the Partnership will be marked to market at the end of each accounting period and the net gain or loss from marking to market will be reported as income or loss for financial statement presentation and capital account maintenance purposes. This treatment differs from the general tax rule applicable to many securities transactions that a transaction does not result in gain or loss until it is closed by an actual sale or other disposition. The divergence between such accounting and tax treatments frequently may result in substantial variation between financial statement income (or loss) and taxable income (or loss) reported by the Partnership.

LIMITATIONS ON LOSSES AND DEDUCTIONS

The Code provides several limitations on a Limited Partner's ability to deduct his or her share of Partnership losses and deductions.

Interest Ex pense. To the extent that the Partnership has interest expense, a non-corporate Limited Partner will likely be subject to the "investment interest expense" limitations of Section 163(d) of the Code. Investment interest expense is interest paid or accrued on indebtedness incurred or continued to purchase or carry property held for investment. The deduction for investment interest expense is limited to net investment income; i.e., the excess of investment income over investment expenses. Excess investment interest expense that is disallowed is not lost permanently but may be carried forward to succeeding years subject to the Section 163(d) limitation. Net capital gain (i.e., net long-term capital gain over net short-term capital loss) on property held for investment and qualified dividends is only included in investment income to the extent the taxpayer elects to subject some or all of such gain to taxation at ordinary income tax rates. If some or all of the Partnership's operations do not constitute a trade or business for purposes of Section 163(d) of the Code, then the Section 163(d) limitations will apply at the Partner level with regard to the Partnership's interest expense. Whether all or any portion of the Partnership's operations constitutes a trade or business is a question of fact. As the Partnership's operations may encompass a variety of strategies, the Partnership cannot predict to what extent its operations will constitute a trade or business. Further, even if the Partnership's operations constitute a trade or business, the position may possibly be taken that the investment interest expense, while subject to the Section 163(d) limitation, is not an itemized deduction.

The Code provides additional rules governing the deductibility of interest expense paid or accrued to acquire to carry certain interest-bearing obligations. The Partnership intends to finance the Partnership's portfolio of debt obligations through borrowings. Depending upon certain factors, including whether or not the Partnership makes certain elections for federal income tax purposes, all of the Partnership's interest expense in a taxable year of the Partnership may not be deductible in the year paid or incurred, including certain rules relating to the timing of recognition of market discount income, and such items of expense may be deductible in a future year.

Under Section 67 of the Code, for non-corporate partners certain miscellaneous itemized deductions are allowable only to the extent they exceed a "floor" amount equal to 2% of adjusted gross income. If, or to the extent that, the Partnership's operations do not constitute a trade or business within the meaning of Section 162 and other provisions of the Code, as discussed above under "Taxation of Partnership Operations", a non-corporate Limited Partner's distributive share of the Partnership investment expenses, other than investment interest expense, would be deductible only as miscellaneous itemized deductions, subject to the 2% floor. Also, if or to the extent that the Partnership's operations do not constitute a trade or business, and all or a portion of the Carried Interest to the General Partner is re-characterized for tax purposes as an expense of the Partnership, each non-corporate Limited Partner's share of such expense may be subject to the 2% floor. In addition, the Code restricts the ability of an individual with an adjusted gross income in excess of specified amounts to deduct certain itemized deductions. Under such provision, investment expenses in excess of 2% of adjusted gross income may only be deducted to the extent such excess expenses (along with certain other itemized deductions not including investment interest expense) exceed the lesser of (i) 3% of the excess of the individual's adjusted gross income over the specified amount or (ii) a specified percentage of the amount of such itemized deductions otherwise allowable for the taxable year. Moreover, investment expenses are miscellaneous itemized deductions, which are not deductible by a non-corporate taxpayer in calculating its alternative minimum tax liability.

Passive Activities. Code Section 469 imposes limitations on the ability of a taxpayer to deduct losses derived from passive activities. Under these rules, a taxpayer may apply losses derived from a passive activity against income that that or any other passive activity, but may not apply losses from a passive activity against active or portfolio income. Portfolio income generally includes interest, dividends, gain from the sale of property held for investment and other items. Although interest income is generally characterized as portfolio income, it is not portfolio income if it is received from loans made in the ordinary course of lending money. In that event, interest is treated as income derived from a business activity, and characterized as either active or passive depending upon a Limited Partner's participation in the Partnership's business. It is anticipated that a Limited Partner's participation will be passive. However, there is an important exception to the foregoing rule, whereby interest derived in the ordinary course of a lending business is re-characterized in part as portfolio income if the business meets certain tests for qualification as an "equity-financed lending activity" ("**EFLA**"). An EFLA is one in which the business' average debt is 80% or less than the average balance of its loan receivables. The Partnership anticipates that it may, at all times, or from time or time, qualify as an EFLA, depending, in part, upon the level of financing derived from Limited Partners' capital that is contributed to the Partnership's lending activities.

Capital Gains and Losses. Capital losses generally may be deducted only to the extent of capital gains, except for non-corporate taxpayers who are allowed to deduct $3,000 of excess capital losses per year against ordinary income. Corporate taxpayers may carry back unused capital losses for three years and may carry forward such losses for five years; non-corporate taxpayers may not carry back unused capital losses but may carry forward unused capital losses indefinitely.

Gain or loss from a short sale of property is generally considered as capital gain or loss to the extent the property used to close the short sale constitutes a capital asset in the Partnership's hands.

TAX-EXEMPT INVESTORS

If the Partnership derives income which would be considered "unrelated business taxable income", as defined in Section 512 of the Code ("**UBTI**"), if derived directly by a Limited Partner that is an organization exempt from tax under Sections 401 or 501(a) of the Code, such Limited Partner's allocable share of the Partnership's income would be subject to tax. A tax-exempt organization which is subject to tax on its allocable share of the Partnership's UBTI, including an IRA, may also be subject to the alternative minimum tax with respect to items of tax preference which enter into the computation of UBTI.

UBTI is generally the excess of gross income from any unrelated trade or business conducted by a tax-exempt organization (or by a partnership of which the tax-exempt organization is a member) over the deductions attributable to such trade or business. UBTI generally does not include dividends, interest, annuities, royalties and gain or loss from the disposition of property other than stock in trade or property held for sale in the ordinary course of the trade or business.

While UBTI itself is taxable, the receipt of UBTI by a tax-exempt entity generally has no effect upon that entity's tax-exempt status or upon the exemption from tax of its other income.

A tax-exempt organization under Section 501 (a) of the Code (and an IRA) also includes in its UBTI its "unrelated debt-financed income" (and its allocable share of the "unrelated debt-financed income" of any partnership in which it invests) pursuant to Section 514 of the Code. In general, unrelated debt-financed income consists of: (i) income derived by a tax-exempt organization (directly or through a partnership) from income producing property with respect to which there is "acquisition indebtedness" at any time during the taxable year; and (ii) gains derived by a tax-exempt organization (directly or through a partnership) from the disposition of property with respect to which there is "acquisition indebtedness." Such income and gains derived by a tax-exempt organization from the ownership and sale of debt-financed property are taxable in the proportion to which such property is financed by "acquisition indebtedness" during the relevant period of time.

A Limited Partner that is a tax-exempt organization (or an IRA) should expect to be subject to tax on the proportion of its distributive share of the Partnership's income which is unrelated debt-financed income. In addition, to the extent a tax-exempt organization borrows money to finance its investment in the Partnership, such organization would be subject to tax on the portion of its income which is unrelated debt-financed income even though such income may constitute an item otherwise excludable from UBTI, such as dividends.

The Partnership and certain transactions executed by the Partnership may be subject to tax shelter disclosure registration and listing requirements under applicable U.S. tax laws and regulations.

OTHER TAXES

Partners may be subject to other taxes, such as the alternative minimum tax, state and local income taxes, and estate, inheritance or intangible property taxes that may be imposed by various jurisdictions. Each prospective investor should consider the potential consequences of such taxes on an investment in the Partnership. It is the responsibility of each prospective investor to become satisfied as to the legal and tax consequences of an investment in the Partnership under state law, including the laws of the state(s) of his or her domicile and residence, by obtaining advice from his or her own tax advisors, and to file all appropriate tax returns that may be required.

Income received by the Partnership from sources within non-U.S. countries may be subject to withholding and other taxes imposed by such countries. Each Partner may be entitled either to deduct (as an itemized deduction) his or her proportionate share of the non-U.S. taxes of the Partnership in computing his or her taxable income or to use the amount as a foreign tax credit against his or her U.S. federal income tax liability, subject to limitations. Generally, a credit for non-U.S. taxes is subject to the limitation that it may not exceed the taxpayer's U.S. tax attributable to his or her non-U.S. source taxable income. With respect to partners who are U.S. Persons, certain currency fluctuation gains, including fluctuation gains from non-U.S.-dollar-denominated debt securities, receivables and payables, will be treated as ordinary income derived from U.S. sources; Partnership gains from the sale of securities also will be treated as derived from U.S. sources. The limitation on the foreign tax credit is applied separately to non-U.S. source passive income (as defined for purposes of the foreign tax credit), including the non-U.S. source passive income realized by the Partnership. The foreign tax credit limitation rules do not apply to certain electing individual taxpayers who have limited creditable non-U.S. taxes and no non-U.S. source income other than passive investment-type income. The foreign tax credit generally is eliminated with respect to non-U.S. taxes withheld on income and gain if the Partnership fails to satisfy minimum holding period requirements with respect to the property giving rise to the income and gain.

TAX ELECTIONS; RETURNS; TAX AUDITS

It is possible that the Partnership and or certain transactions executed by the Partnership would be subject to tax shelter disclosure registration and listing requirements under applicable U.S. tax laws and regulations.

The Code provides for optional adjustments to the basis of partnership property upon distributions of partnership property to a partner and transfers of partnership interests (including by reason of death) provided that a partnership election has been made pursuant to Section 754 of the Code. Under the Partnership Agreement, the General Partner, in its sole discretion, may cause the Partnership to make such an election. Any such election, once made, cannot be revoked without the IRS's consent.

Additionally, Section 734 of the Code provides for a mandatory basis adjustment on distributions by partnerships with substantial built in losses, which could cause the Partnership to decrease the basis of assets in such circumstances.

If the Partnership is treated as a securities trader for U.S. federal income tax purposes, the Partnership may elect to "mark to market" its securities at the end of each taxable year, in which case such securities would be treated for U.S. federal income tax purposes as though sold for fair market value on the last business day of such taxable year. Such an election would apply to the taxable year for which made and all subsequent taxable years unless revoked with the consent of the IRS. If the Partnership were to make such an election, a portion of the Partnership's gains and losses would be considered ordinary income or loss, rather than capital gain or loss. Since for U.S. federal income tax purposes capital losses generally may be deducted only against capital gains, a Limited Partner may be unable to deduct capital losses realized from other investments and transactions in a taxable year against his share of the Partnership's income.

The General Partner will decide how to report partnership items on the Partnership's tax returns. Since the Partnership may engage in transactions whose treatment for tax purposes is not clear, there is a risk that a claim of tax liability could be asserted against the Partnership or its Partners. In the event the income tax returns of the Partnership are audited by the IRS, the tax treatment of Partnership income and deductions generally is determined at the partnership level in a single proceeding rather than by individual audits of the Partners. The General Partner, as the "Tax Matters Partner," has considerable authority to make decisions affecting the tax treatment and procedural rights of all Partners. In addition, the Tax Matters Partner has the authority to bind certain Partners to settlement agreements and the right on behalf of all Partners to extend the statute of limitations relating to the Partners' tax liabilities with respect to Partnership items.

Other Matters

A Limited Partner may, with the consent of the General Partner, contribute securities to the capital of the Partnership. However, a Limited Partner's contribution of appreciated securities may be taxable under Section 721(b) of the Code.

The Partnership may incur certain expenses in connection with its organization and the marketing of the Interests. Amounts paid or incurred to organize the Partnership will be amortized, for tax purposes, over a period of 15 years from the date the Partnership commences operations. Amounts paid or incurred to market interests in a partnership (marketing and syndication expenses) are not deductible.

Special Considerations for Partners who are not U.S. Persons

A "**U.S. Person** " is (a) a citizen or resident of the United States, (b) a corporation, partnership, or other entity organized under the laws of the United States, any state, or the District of Columbia, other than a partnership that is not treated as a U.S. Person under the Regulations, (c) an estate whose income is subject to United States income tax, regardless of its source, or (d) a trust if a court within the United states is able to exercise primary supervision over the administration of the trust and one or more U.S. Persons have the authority to control all substantial decisions of the trust or, to the extent provided in the Regulations, certain trusts in existence on August 20, 1996, and treated as U.S. Persons prior to such date, that elect to be treated as U.S. Persons.

The Partnership does not intend to conduct a trade or business in the United States, or to invest in securities the income from which is treated for U.S. federal income tax purposes as arising from a U.S. trade or business. Assuming that the Partnership complies with certain rules and procedures pertaining to the conduct of its affairs (including the assumptions indicated above), it is anticipated that the income of the Partners who are not U.S. Persons will not be subject to regular U.S. federal income taxes on the basis of net income. Offshore investors will be directly or indirectly subject to U.S. withholding taxes on some of their income, including fixed or determinable annual or periodical income, such as dividend income, considered to be from U.S. sources. Generally, capital gains and qualified interest, such as portfolio interest (as defined in Section 871(h) of the Code), should not be subject to U.S. withholding tax. The U.S. withholding tax rate is generally 30%. Although capital gains from the sale of securities should generally not be subject to U.S. withholding tax, the sale of certain securities classified as United States real property interests within the meaning of Section 897 of the Code may be subject to U.S. income and withholding taxes. For example, if the Partnership owns greater than 5% of the stock in certain U.S. utilities and other U.S. corporations that are United States real property interests, sales of such stock may be subject to U.S. income and withholding taxes.

State Taxation

In addition to the federal income tax consequences described above, prospective investors should consider potential state tax consequences of an investment in the Partnership. No attempt is made herein to provide a discussion of such state tax consequences. State laws often differ from federal income tax laws with respect to the treatment of specific items of income, gain, loss, deduction and credit. A Partner's distributive share of the taxable income or loss of the Partnership generally will be required to be included in determining his or her reportable income for state tax purposes in the jurisdiction in which he or she is a resident. Each prospective investor must consult his or her own tax advisors regarding such state tax consequences.

FUTURE TAX LEGISLATION

Future amendments to the Code, other legislation, new or amended Regulations, administrative rulings or guidance by the IRS, or judicial decisions may adversely affect the federal income tax aspects of an investment in the Partnership, with or without advance notice, and retroactively or prospectively.

U.S. TREASURY CIRCULAR 230 NOTICE

The following notice is based on Regulations governing practice before the IRS: (i) any U.S. federal tax advice contained herein, including any opinion of counsel referred to herein, is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding U.S. federal tax penalties that may be imposed on the taxpayer; (ii) any such advice is written to support the motion or marketing of the transactions described herein (or in any such opinion of counsel); and (iii) each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Annex 1: Illustrative Carried Interest Calculations

The examples below are provided for illustrative purposes only and do not take into account all of the provisions of and restrictions contained in the governing documents of the Partnership (including without limitation minimum investment amounts and holdbacks). Further, these examples do not contemplate every possible scenario, fact pattern or permutation. A prospective investor in the Partnership is urged to consult with its advisers as necessary to in order to fully understand the General Partner's right to receive the Carried Interest.

Example 1

Investor A invests $1,000 into the Partnership, $400 of which is immediately placed into a side pocket account and $600 of which is immediately invested in the regular capital account. In two years, the $600 in the regular capital account has appreciated to $1,000 ($400 of gain), and Investor A elects to voluntarily withdraw $200 of the $1,000. The withdrawn amount is presumed to be comprised of $120 of original capital and $80 of gain. The General Partner would receive a Special Carried Interest of 10% of such gain, or $8, upon such withdrawal, and Investor A would receive $192. (Note that the preferred return of 6% per annum (compounded annually), or $14.8, has been satisfied with respect the $120 of original capital withdrawn.)

Investor A makes no further voluntary withdrawals. Two years later, the Partnership is liquidated, and (x) the $800 remaining in the regular capital account is realized for $700 and (y) the $400 in the side pocket account is realized for $500, for a total of $1,200 available for distribution. This amount would be distributed in accordance with the "waterfall" as follows:

- *Return of Capital to Investor A*: $880 to Investor A as a return of remaining original capital ($120 of original capital has already been returned to Investor A as part of its voluntary withdrawal)

- *Preferred Return*: $880 at 6% per annum (compounded annually) for 4 years = $231 to Investor A

- *General Partner Catch-Up*: $26 goes to the General Partner as Regular Carried Interest (note that the General Partner has now received 10% (approximately) of the $257 of gains thus far distributed)

- *90/10 Split*: Of the remaining $63, $57 goes to Investor A and $6 goes to the General Partner as further Regular Carried Interest

Overall Distributions:

- Investor A has received distributions of $192 + $880 + $231 + $57 = $1,360

- The General Partner has received distributions of $8 + $26 + $6 = $40 (10% of the overall $400 of gains)

Example 2

Same facts as in the first paragraph of Example 1.

Investor A makes no further voluntary withdrawals. Two years later, the Partnership is liquidated, and (x) the $800 remaining in the regular capital account is realized for $500 and (y) the $400 in the side pocket account is realized for $300, for a total of $800 available for distribution. This amount would be distributed entirely to Investor A as a (partial) return of its $880 of remaining original capital.

Overall Distributions:

- Investor A has received distributions of $192 + $800 = $992

GP has received distributions of $8. Note that the General Partner has no obligation to return this $8, notwithstanding that Investor A ultimately did not receive a return of all of its $1,000 of original capital.