

such investments do not fall by a corresponding amount, the rate of return to Investors could be further reduced. Periods of deflation are often characterized by a tightening of money supply and credit, which could limit the amounts available to the Fund with which to make and/or leverage investments, and so limit the number and size of investments that the Fund may make and affect the rate of return to Investors. Such economic constraints could also make certain assets in which the Fund may invest and related businesses more illiquid, preventing the Fund from divesting such assets efficiently and so reducing the return to Investors from such investments. Deflation may also make it more difficult for investments which are leveraged at the asset level to meet or service their debt obligations, due to reductions in revenues and increases in the size of the debt relative to the overall value of an investment.

Currency risks

Commitments will be denominated, and drawdowns and distributions made, in U.S. dollars but the Fund may make and realize investments in currencies other than U.S. dollars and, as a result, the value of investments may go up or down solely as a result of changes in currency exchange rates. The Fund will incur costs in connection with conversions between various currencies. The Manager will attempt to maximize U.S. dollar revenues and sales proceeds, and the Fund and its underlying investments may engage in hedging transactions to reduce currency risk. There can be no assurance, however, that such hedging transactions, if the Fund chooses to enter into them, will fully protect against the risk of currency fluctuations. Moreover, hedging transactions themselves may involve additional risks and result in transaction costs. Investors should be aware that if their reference currency is a currency other than U.S. dollars, their investment in the Fund may be adversely affected by any reduction in the value of the U.S. dollar relative to their reference currency. They may also incur the further transaction costs of converting U.S. dollars into another currency. Such investors are strongly urged to consult their financial advisers with a view to determining whether they should enter into hedging transactions to offset these risks.

Status of debt markets and availability of financing

In recent years, disruptions in the debt markets have caused a significant decrease in the availability of financing, an increase in interest rates (despite decreases in base rates) and a tightening of lending and underwriting standards for investments in general. Such conditions may impair the Fund's ability to obtain financing or refinancing to fund the acquisition of investments, or such financing may be available to the Fund on less favorable terms. In addition, because purchasers of investments held directly or indirectly by the Fund typically require acquisition financing to fund a portion of the purchase price, these conditions may adversely affect the availability of favorable exit opportunities for such investments. This could have a serious adverse effect on the Fund's ability to implement its investment strategy and generate returns. The continuation or worsening of the disruptions in the debt markets could have an adverse impact on the availability of credit to businesses generally. Under the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act, and under other international bank regulatory frameworks, such as Basel III, banking organizations and other financial institutions are required to hold additional regulatory capital and to meet more stringent liquidity, leverage and other similar tests. The timing, scope and cumulative effect of these regulatory developments is not fully known, but they may result in lenders being less willing and able to extend credit to borrowers like the Fund and/or increased costs to lenders, which are passed on to borrowers such as the Fund.

Legal, tax and regulatory risks of private funds

Legal, tax and regulatory changes could occur that may adversely affect the Fund. The legal, tax and regulatory environment for funds that invest in alternative investments is evolving, and changes in the regulation and market perception of such funds, including changes to existing laws and regulations and increased criticism of the private equity and alternative asset industry by some politicians, regulators and market commentators, may adversely affect the ability of the Fund to pursue its investment strategy and the value of investments held by the Fund. In recent years, market disruptions and the dramatic increase in the capital allocated to alternative investment strategies have led to increased governmental as well as self-regulatory scrutiny of the alternative investment fund industry in general. Recently, there has been significant discussion regarding greater governmental scrutiny and/or potential regulation of the private investment industry, as private equity and other private investment firms become more significant participants in the broad-based economy. It is in many cases uncertain what form such enhanced scrutiny and/or regulation on the private equity industry ultimately may take and in what jurisdictions such measures may be implemented. Therefore, there can