

Asset allocations among strategies are generally based on a bottom-up approach, but are bounded based on the Management Company's ongoing analysis of prevailing market conditions. The Underlying Funds neither focus on, nor limit their trading to, any geographic area, industry sector, issuer credit rating or issuer market capitalization level. The Underlying Funds are not subject to any formal diversification requirements, and their portfolios may, from time to time, be concentrated in a limited number of positions or strategies.

The strategies of the Underlying Funds can, generally, be separated into three categories: relative value, event-driven and directional strategies. There are no clear dividing lines among these categories, and any strategy employed by the Underlying Funds may be cross-categorized to the extent that its guiding logic is multidisciplinary. There is no material limitation on the strategies which the Underlying Funds may implement.

Relative Value Strategies

Relative value strategies seek to profit from the relative mispricing of related assets: for example, convertible bonds and the common stock underlying the conversion option, other options and futures and their underlying reference assets, debt instruments of the same issuer or of different issuers (including credit default swaps on the issuer(s)) with different maturities or yields, and the common stock of different issuers in the same industry sector. These strategies may be highly quantitative and based on theoretical or historical pricing relationships. Because they focus on capturing the value from the relative mispricing of related assets, relative value strategies can generate returns independent of overall movements in the global level of debt or equity prices, although many of these strategies in fact are constructed with a long or short equity or debt bias. Because the mispricings that these strategies exploit tend to be small in absolute terms, these strategies frequently use leverage, which could be substantial, in an attempt to increase returns. The use of leverage creates risks of "credit squeezes" and the adverse effects of discretionary margin increases by dealers and counterparties to which many strategies are not subject.

Few relative value strategies involve pure arbitrage, in which a profit will inevitably be recognized if the position can be held until maturity. Moreover, it is typical of relative value strategies not to, and the Underlying Funds do not, hedge all the risks of each strategy, and certain risks cannot be effectively hedged. Relative value strategies are all (even in the case of pure arbitrage) subject to the fundamental risk that aberrational market prices, even if correctly identified, will not revert to fair value during the period that an Underlying Fund is able to maintain its positions.

Event-Driven Strategies

Event-driven strategies concentrate on the profit potential created by major corporate events: for example, mergers, acquisitions, restructurings, bankruptcies, liquidations, regulatory or legal developments and other events. Unlike relative value strategies, which emphasize the (often theoretically compelled) quantitative relationship among different but related assets, event-driven strategies are highly issuer- and transaction-specific and could rely more on fundamental research and judgment than on mathematical precision. Positions are taken which will be profitable if a particular event comes to pass, while a variety of techniques are used to mitigate the risk that the event does not happen. The uncertainty associated with the event may not be