

In response to the disruptions in the credit markets, the U.S. Federal Reserve and other central banks around the world have lowered interest rates to historically low levels. However, the continued recovery of the U.S. economy and recent and potential future changes in U.S. government policy, including the tapering of the U.S. Federal Reserve Board's quantitative easing program, increase the risk that interest rates will rise in the near future. Although a rising interest rate and increased volatility environment may be beneficial to certain strategies utilized by the Management Company, any future interest rate increases may also result in periods of volatility and cause the value of the fixed income and other Securities held by an Underlying Fund to decrease, which may result in substantial withdrawals from the Partnership that, in turn, force the Underlying Fund to liquidate such Securities at disadvantageous prices negatively impacting the performance of the Underlying Fund. In addition, rising interest rates generally will increase the interest carrying costs to the Underlying Fund of borrowed Securities, as well as the cost of leverage used by the Underlying Fund.

### **Reliance on Corporate Management and Financial Reporting**

Many of the strategies implemented by the Underlying Funds rely on the financial information made available by the issuers to which the Underlying Funds have exposure. The Management Company has no ability to independently verify the financial information disseminated by such issuers and is dependent upon the integrity of both the management of these issuers and the financial reporting process in general in making investments for the Underlying Funds. Material losses can occur as a result of corporate mismanagement, fraud and accounting irregularities.

### **Competition; Potential Strategy Saturation**

The Underlying Funds compete for investment ideas and investment talent with numerous other private investment funds as well as other investors, many of which have resources substantially greater than the Underlying Funds' resources. The Management Company's ability to enable the Underlying Funds to compete successfully depends on its ability to attract and retain successful portfolio managers. Additionally, at any given time, a relatively small number of portfolio managers may be responsible for a substantial portion of the Underlying Funds' positive performance. To the extent the Management Company's competitors are successful, the opportunities available to the Underlying Funds may be reduced.

Particularly during downward market cycles or when financing is difficult to obtain, the competition for certain of an Underlying Fund's transactions as do occur can be especially intense, and an Underlying Fund will be competing with investors (including other funds generally similar to the Underlying Fund) with resources well beyond those of the Underlying Fund.

The amount of capital committed to alternative investment strategies is substantial. Although the market disruptions in 2008 decreased the number of market participants investing in alternative investment strategies, as hedge funds failed and financial institutions closed their proprietary trading desks, significant returns (particularly in 2009) for those who were able to continue to pursue them, resulted in capital again being attracted into alternative investment strategies. During periods when there are a large number of hedge funds and others seeking to identify the same alternative investment opportunities, the profit potential of the Partnership may