

Convertible arbitrage strategies, an example of a relative value strategy which is employed by an Underlying Fund, consists of buying, selling and trading convertible securities, typically including hedging a portion of the risk inherent in such Securities. Convertible securities are Securities that may be exchanged or converted into a predetermined number of an issuer's underlying common shares at the option of the holder during a specified time period. They may take the form of convertible preferred stock, convertible bonds or debentures, stock purchase warrants or other securities combining the features of these Securities. Convertible hedging combines the use of other instruments in conjunction with a convertible security with a view to controlling risk while seeking profits. Convertible securities may be hedged by selling short some or all of the common stock issuable upon conversion of such Securities, or by establishing "synthetic" short positions through derivatives and options transactions. If the market price of the common stock increases above the conversion price on a convertible security, the price of such convertible security should increase. If the price of the common stock declines, the price of the corresponding convertible security should decline.

The Management Company will employ a variety of convertible arbitrage trading and investment strategies for an Underlying Fund. The primary objective of such trading is to profit from mispricings and anomalies between and among the various instruments traded, seeking to exploit a relatively small perceived spread on any given trade. The successful identification of mispriced Securities and contracts requires expertise in assessing the relative values of different but related instruments.

The value of a Security is influenced by a number of characteristics, including credit quality, volatility, liquidity and "borrowability," as well as "corporate event" risk (e.g., change of control transactions). In order to mitigate these risks, the Management Company utilizes fundamental credit research along with quantitative analysis and modeling in making investments with regard to the equity and fixed income components of any particular investment.

### **Market Neutral and Hedged Strategies**

Although the Management Company invests in positions that are intended to be market neutral, it may be unable to, or decide not to, hedge its positions, and, in such event, an Underlying Fund might sustain a significant risk of loss as a result of changes in the price of unhedged positions. In addition, there is no guarantee that the returns of the Underlying Fund will continue to have a low correlation or be non-correlated with market indices and the Underlying Fund could experience significant losses. This may be particularly true during periods of very high market volatility resulting from global events such as political upheavals, terrorist attacks, war or government intervention in currency markets.

An Underlying Fund also may utilize financial instruments such as commodity interests, forward contracts and interest rate swaps, caps and floors both for investment purposes and to seek to hedge against fluctuations in the relative values of the Underlying Funds' portfolio positions. Hedging against a decline in the value of a portfolio position 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 hedge transactions also limit the opportunity for gain if the value of the portfolio positions should increase. Moreover, it may not be possible for the Underlying