

An Underlying Fund may enter into other derivative instruments, such as credit derivatives. An Underlying Fund may take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are deemed by the Management Company to be consistent with the investment objective of an Underlying Fund. Special risks may apply to instruments that are invested in by an Underlying Fund in the future that cannot be determined at this time or until such instruments are developed or invested in by an Underlying Fund. For example, risks with respect to credit derivatives may include determining whether an event will trigger payment under the contract and whether such payment will offset the loss or payment due under another instrument. In the past, buyers and sellers of credit derivatives have found that a trigger event in one contract may not match the trigger event in another contract, exposing the buyer or the seller to further risk. Other swaps, options, and other derivative instruments may be subject to various types of risks, including market risk, regulatory risk, tax risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk, and operations risk. In addition, as new derivative instruments are developed, documentation may not be standardized, leading to potential disputes or misunderstanding with counterparties. Whether an Underlying Fund's use of derivatives will be successful will depend on the Management Company's ability to select appropriate transactions for such Underlying Fund.

Regulation in the Derivatives Industry

There are now many rules related to derivatives that may negatively impact the Underlying Fund such as requirements related to recordkeeping, reporting, portfolio reconciliation, central clearing, minimum margin for uncleared OTC instruments and mandatory trading on electronic facilities, and other transaction level obligations. Parties that act as dealers in swaps are also subject to extensive business conduct standards, additional "know your counterparty" obligations, documentation standards and capital requirements. All of these requirements add costs to the legal, operational and compliance obligations of the Management Company and the Underlying Funds, and increase the amount of time that the Management Company spends on non-investment-related activities. Requirements such as these also raise the costs of entering into derivative transactions, and these increased costs will likely be passed on to the Underlying Fund.

The new rules also add additional operational and technological burdens on the Underlying Fund and the Management Company. These compliance obligations require certain training of employees and new technology, and there are operational risks borne by the Underlying Fund and the Management Company in implementing procedures to comply with many of these additional obligations.

The new regulations may also result in the Underlying Fund forgoing the use of certain broker-dealers, futures commission merchants ("FCM") or counterparties as the use of other parties may be more efficient for the Underlying Fund from a regulatory perspective. However, this could limit the Underlying Fund's trading activities, create losses, preclude the Underlying Fund from engaging in certain transactions or prevent the Underlying Fund from trading at optimal rates and terms.