

Many of these requirements were implemented pursuant to the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), the EU Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (known as the European Market Infrastructure Regulation or “EMIR”) and similar regulations globally. In the United States, the Dodd-Frank Act divides the regulatory responsibility for derivatives between the SEC and the U.S. Commodity Futures Trading Commission (the “CFTC”), a distinction that does not exist in any other jurisdiction. The CFTC has regulatory authority over “swaps” and the SEC has regulatory authority over “security-based swaps”. EMIR is being implemented in phases through the adoption of delegated acts by the European Commission. As a result of the SEC and CFTC bifurcation and the different pace at which the SEC, the CFTC, the European Commission and other international regulators have promulgated necessary regulations, different transactions are subject to different levels of regulation. Though many rules and regulations have been finalized, there are others, particularly SEC regulations with respect to security-based swaps and EMIR regulations that are still in the proposal stage or are expected to be introduced in the future.

The following describes the new derivatives regulations that may have the biggest impact on the Underlying Fund:

**Reporting.** Most swap transactions have become subject to anonymous “real time reporting”, meaning that information relating to transactions entered into by the Underlying Fund will become visible to the market in ways that may harm the Underlying Fund’s ability to enter into additional transactions at comparable prices or could enable competitors to “front run” or replicate the Underlying Fund’s strategies.

**Central Clearing.** In order to mitigate counterparty risk and systemic risk in general, various U.S. and international regulatory initiatives are underway to require certain derivatives to be cleared through central clearinghouses. In the United States, clearing requirements have been implemented as part of the Dodd-Frank Act. The CFTC imposed its first clearing mandate on December 13, 2012, affecting certain interest rate and credit default swaps. The CFTC and the SEC may introduce clearing requirements for additional classes of derivatives in the future. EMIR also requires OTC derivatives contracts meeting specific criteria to be cleared through central counterparties.

While such clearing requirements may be beneficial for the Underlying Fund in many respects (for instance, they may reduce the counterparty risk to the dealers to which the Underlying Fund would be exposed under non-cleared derivatives), the Underlying Fund could be exposed to new risks, such as the risk that an increasing percentage of derivatives will be required to be standardized and/or cleared through central clearinghouses, and as a result the Underlying Fund may not be able to hedge its risks or express an investment view as well as it would using customizable derivatives available in the over-the-counter markets. The Underlying Fund may have to split its derivatives portfolio between centrally cleared and over-the-counter derivatives, which may result in operational inefficiencies and an inability to offset risk between centrally cleared and over-the-counter positions, and which could lead to increased costs.

Another risk is that the Underlying Fund may be subject to more onerous and more frequent (daily or even intraday) margin calls from both the Underlying Fund’s FCM and the clearinghouse. Virtually all margin models utilized by the clearinghouses are dynamic, meaning that unlike