

liabilities are valued by third party sources (including Valuation Agents). However, since the General Partner has ultimate authority to make valuation determinations and to value the assets and liabilities of the Underlying Funds (that is, by using so-called “manager marks”), it may be deemed subject to a conflict of interest, as the valuation of such assets and liabilities affects its compensation and the compensation of the Management Company.

Management Fee

The Management Fee is payable without regard to the overall success or income earned by the Underlying Funds and therefore may create an incentive on the part of the Management Company to raise or otherwise increase assets under management to a higher level than would be the case if the Management Company were not receiving a Management Fee. The Management Fee is not the product of an arm’s-length negotiation with any third party, and, because the Management Fee is based on mark-to-market values, it may be greater than if such compensation were based solely on cost.

Incentive Allocation

The General Partner will receive the performance-based Incentive Allocation in connection with the management of the Partnership. The Incentive Allocation is not the product of an arm’s-length negotiation with any third party, and, because the Incentive Allocation is calculated on a basis which includes unrealized appreciation of the Underlying Funds’ assets, it may be greater than if such compensation were based solely on realized gains.

The Incentive Allocation may give rise to potential conflicts of interest, including, but not limited to, the following:

Allocation of Investment Opportunities

The Incentive Allocation may create an incentive for the Management Company, an affiliate of the General Partner, to direct the best investment ideas to, or to allocate or sequence trades in favor of, (i) Accounts with performance compensation arrangements over Accounts that are not charged, or from which the General Partner or the Management Company will not receive (e.g., because the Account is below its high water mark), performance-based allocations or compensation, and (ii) Accounts from which the General Partner or the Management Company will receive a greater performance-based allocations or compensation over Accounts from which the General Partner or the Management Company will receive lesser performance-based allocations or compensation.

Valuation

Although the General Partner attempts to assure that all assets and liabilities are valued by third party sources (including Valuation Agents), the Incentive Allocation may create an incentive for the Management Company to cause the General Partner to provide manager marks that differ from third party valuation sources (including the Valuation Agent(s)).

Risk