

Distributions of Property. A partner's receipt of a distribution of property from a partnership is generally not taxable. However, under Section 731 of the Code, a distribution consisting of marketable securities generally is treated as a distribution of cash (rather than property) unless the distributing partnership is an "investment partnership" within the meaning of Section 731(c)(3)(C)(i) and the recipient is an "eligible partner" within the meaning of Section 731(c)(3)(C)(iii). The Partnership will determine at the appropriate time whether it qualifies as an "investment partnership." Assuming it so qualifies, if a Limited Partner is an "eligible partner," which term should include a Limited Partner whose contributions to the Partnership consisted solely of cash, the rule treating a distribution of property as a distribution of cash would not apply.

Tax Treatment of Partnership Investments

In General. Each of the Partnership and the Master Fund is engaged in a trade or business as a trader in securities and commodities. However, the Partnership or the Master Fund may acquire and separately identify securities and/or commodities it does not hold in conjunction with such trade or business, but for investment purposes. Each of the Partnership and the Master Fund has elected to report its income from sales of securities and commodities held in connection with such trade or business on a "mark-to-market" basis for Federal income tax purposes. References to "the Partnership" in this section shall also be read to include "the Master Fund", where applicable.

Under this accounting method, (i) gains or losses recognized by the Partnership upon an actual disposition of securities and/or commodities held in connection with such trade or business are treated as ordinary income or loss and (ii) any such securities and/or commodities held by the Partnership on the last day of each taxable year are treated as if they were sold by the Partnership for their fair market value on that day, and gains or losses recognized on this deemed sale will be treated as ordinary income or loss. For purposes of measuring gain or loss with respect to any such security or commodity in any subsequent year, the amount of any gain or loss previously recognized under the mark-to-market rules is taken into account in determining the tax basis for the position. The Partnership is required to identify any positions that are not held in connection with such trade or business on the day such positions are acquired. If the Partnership fails to properly identify a position that is not held in connection with such trade or business, the Service may require the Partnership to recognize "mark-to-market" gains on such position as ordinary income at the end of each taxable year, but defer recognition of any "mark-to-market" losses, to the extent they exceed gains previously recognized with respect to such position, until the position is sold. Moreover, there can be no assurance that the Service will agree that the Partnership's securities and/or commodities activities will constitute trading rather than investing, in which case the Partnership may not be able to mark-to-market its positions.

To the extent positions are treated as held for investment by the Partnership, they would not be subject to the "mark-to-market" election described above. Gains and losses on such investment positions would be realized on the sale of the positions and would generally be capital gains and losses. Capital gains and losses recognized by the Partnership may be long-term or short-term depending, in general, upon the length of time the Partnership maintains a particular investment position and, in some cases, upon the nature of the transaction. Property held for more than one year generally will be eligible for long-term capital gain or loss treatment.