

Derivatives

Swaps and certain options and other custom derivative or synthetic instruments are subject to the risk of nonperformance by the counterparty to such instrument, including risks relating to the financial soundness and creditworthiness of the counterparty. The prices of derivative instruments can be highly volatile. In addition, derivatives may entail investment exposures that are greater than their cost would suggest, meaning that a small investment in derivatives could have a large impact on the Partnership's performance.

There has been an international effort to increase the stability of the OTC derivatives market in response to the recent financial crisis. In the United States, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") includes provisions that also comprehensively regulate the OTC derivatives markets. In Europe, the European Parliament has adopted a regulation on OTC derivatives, central counterparties and trade repositories (known as the European Markets and Infrastructure Regulation, or "EMIR"), which comprehensively regulates the OTC derivatives markets. These regulations have imposed compliance costs on the Partnership. They have also increased the dealers' costs, which are expected to be passed through to other market participants in the form of higher fees and less favorable dealer marks. They may also render certain strategies in which the Partnership might otherwise engage impossible or so costly that they will no longer be economical to implement. The full effect of these regulations is not yet known.

Futures Contracts

The Partnership may invest in futures contracts. The low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security can produce disproportionately larger profit or loss.

The use of futures is a highly specialized activity which involves investment strategies and risks different from those associated with ordinary portfolio securities transactions, and there can be no guarantee that their use will increase the Partnership's return or not cause the Partnership to sustain large losses. While the use of these instruments by the Partnership may reduce certain risks associated with portfolio positions, these techniques themselves entail certain other risks. If the Investment Manager applies a strategy at an inappropriate time or judges market conditions or trends incorrectly, futures strategies may lower the Partnership's return or cause substantial losses. Certain strategies limit the Partnership's possibilities to realize gains as well as limit its exposure to losses. The Partnership could also experience losses if the values of its futures positions were poorly correlated with its other investments, or if it could not close out its positions because of an illiquid market. In addition, the Partnership will incur transaction costs, including trading commissions, in connection with its futures transactions and these transactions could significantly increase the Partnership's investment turnover rate. Futures markets are highly volatile. The low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss. There is no assurance that a liquid secondary market will exist for futures contracts or options purchased or sold, and the Partnership may be required to maintain a position until exercise or expiration, which could result in losses. Many futures exchanges limit the amount of fluctuation permitted in contract prices during a single trading day. Once the daily limit has been reached in a particular contract, no trades may be made that day at a price beyond that limit. Contract prices could move to the daily limit for several consecutive trading days permitting little or no trading, thereby preventing prompt liquidation of futures and options positions and potentially subjecting the Partnership to substantial losses. Investing in futures contracts, options or commodities is a highly specialized investment activity entailing greater than ordinary investment risk.

Moreover, under the Commodity Exchange Act, as amended (the "CEA"), a futures commission merchant (an "FCM") is required to segregate all funds received from customers from its proprietary assets. If the FCM fails to do so, the assets of the Partnership might not be fully protected in the event of the FCM's bankruptcy. Furthermore, in the event of the FCM's bankruptcy, the Partnership could be limited to recovering either a pro rata share of all available funds segregated on behalf of the FCM's combined