

prepared based on information furnished by the General Partner and the Investment Manager; Seward & Kissel LLP has not independently verified such information.

### **Business and Regulatory Risks of Hedge Funds**

Legal, tax and regulatory changes could occur during the term of the Partnership that may adversely affect the Partnership. The regulatory environment for hedge funds is evolving, and changes in the regulation of hedge funds may adversely affect the value of investments held by the Partnership and the ability of the Partnership to obtain the leverage it might otherwise obtain or to pursue its trading strategies. In addition, securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. The effect of any future regulatory change on the Partnership could be substantial and adverse including, for example, increased compliance costs, the prohibition of certain types of trading and/or the inhibition of the Partnership's ability to pursue certain of its investment strategies as described in this Memorandum.

In particular, the Dodd-Frank Act, which became law in July 2010, includes provisions that comprehensively regulate the OTC derivatives markets for the first time. Key provisions of the Dodd-Frank Act require rulemaking by the SEC and the Commodity Futures Trading Commission ("CFTC"), not all of which has been proposed or finalized as at the date of this Memorandum. As a result, investors should expect future changes in the regulatory environment.

The Dodd-Frank Act will require that a substantial portion of OTC derivatives must be executed on regulated markets and submitted for clearing to regulated clearing houses. Mandatory clearing is already in effect with respect to certain derivatives. OTC trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearing house, as well as possible SEC- or CFTC-mandated margin requirements. The regulators also have broad discretion to impose margin requirements on non-cleared OTC derivatives. Although the Dodd-Frank Act includes limited exemptions from the clearing and margin requirements for so-called "end-users", the Master Fund does not expect to be able to rely on such exemptions. In addition, the OTC derivative dealers with which the Master Fund may execute the majority of its OTC derivatives will not be able to rely on the end-user exemptions under the Dodd-Frank Act and therefore such dealers will be subject to clearing and margin requirements notwithstanding whether the Master Fund is subject to such requirements. OTC derivative dealers will also be required to post margin to the clearing houses through which they clear their customers' trades instead of using such margin in their operations, as they currently are allowed to do. This will further increase the dealers' costs, which costs are expected to be passed through to other market participants in the form of higher fees and less favorable dealer marks.

The SEC and the CFTC may also require a substantial portion of derivative transactions that are currently executed on a bilateral basis in the OTC markets to be executed through a regulated securities, futures, or swap exchange or execution facility. Such requirements may make it more difficult and costly for investment funds, including the Partnership and the Master Fund, to enter into highly tailored or customized transactions. They may also render certain strategies in which the Partnership (through its investment in the Master Fund) might otherwise engage impossible or so costly that they will no longer be economical to implement.

OTC derivative dealers and major OTC derivatives market participants will be required to register with the SEC and/or the CFTC. The Master Fund and/or the Investment Manager may (but are not currently expected to) be required to register as major participants in the OTC derivatives markets. Whether or not such registration will be required will depend on future rulemaking and on the volume of the Partnership's and the Investment Manager's participation in derivative markets. Dealers and major participants will be subject to minimum capital and margin requirements. These requirements may apply irrespective of whether the OTC derivatives in question are exchange-traded or cleared. OTC derivatives dealers will also be subject to new business conduct standards, disclosure requirements, reporting and recordkeeping requirements, transparency requirements, position limits, limitations on conflicts of interest, and other regulatory burdens. These requirements may increase the overall costs for OTC derivative dealers, which are likely to be passed along, at least partially, to market participants in the form of higher fees or less