

Partnership Agreement, whether or not any income is paid out to such Partner. Such items of taxable income, deduction and loss will be required to be taken into account in the taxable year of the Partner in which the fiscal year of the Partnership ends.

Under Section 7704 of the Internal Revenue Code of 1986, as amended (the "Code"), a partnership that meets the definition of a "publicly traded partnership" may be taxable as a corporation. It is expected that the Partnership will not be treated as a "publicly traded partnership." However, even if it were considered to be publicly traded, the Partnership would be taxed as a corporation only if less than 90% of its gross income for any taxable year consisted of "qualifying income," which term includes, among other things, interest, dividends, and gains from the sale of securities. It is anticipated that 90% or more of the Partnership's income for each taxable year will be "qualifying income," and that, accordingly, even if the Partnership were considered to be publicly traded, it would still be treated as a partnership for Federal income tax purposes. If the Partnership were taxed as a corporation, the Partnership's income would be subject to corporate income tax, which would significantly reduce the return that an investor would derive from the Partnership.

The Partnership invests substantially all of its assets through a "master-feeder" structure in the Master Fund, which is a Cayman Islands exempted company. Although the Master Fund will be subject to a 30% Federal withholding tax with respect to dividends and certain interest income considered to be from sources within the United States, the Partnership's share of such income should not be subject to this withholding tax. The Master Fund has elected to be treated as a partnership for Federal income tax purposes and, consequently, will not be a taxable entity for Federal income tax purposes. The Partnership will take into account for Federal income tax purposes its pro rata share of the Master Fund's income and loss.

Under the Partnership Agreement, the General Partner will have the discretion to allocate specially an amount of the Partnership's taxable gains or losses to a retiring Partner to the extent that the Partner's capital account exceeds, or is less than, such Partner's Federal income tax basis in such Partner's partnership interest. There can be no assurance that the Internal Revenue Service (the "IRS") would accept such a special allocation. If the special allocation was successfully challenged by the IRS, the Partnership's taxable gains or losses allocable to the remaining Partners would be increased.

The Master Fund will be required each year to make the determination as to whether it will take the position for Federal income tax purposes that it is (i) a trader in securities or (ii) an investor in securities. This determination will be made separately each year based primarily on the level of the Master Fund's securities activities during the particular year. Accordingly, the Master Fund's status as a trader or an investor may vary from year to year and is difficult to predict in advance. If the Master Fund is characterized as a trader, each Partner who is an individual may deduct his or her share of the expenses of the Master Fund (other than interest expense) under Section 162 of the Code as business expenses. Alternatively, if the Master Fund is characterized as an investor, the expenses of the Master Fund (other than interest expense) would be investment expenses deductible under Section 212 of the Code and as such, would be deductible by an individual only to the extent that his or her share of such expenses, when combined with his or her other "miscellaneous itemized deductions," exceeds 2% of his or her adjusted gross income. Further, the amount in excess of such 2% floor would be subject to the overall limitation on itemized deductions imposed by Section 68 of the Code. Also, the amount in excess of such 2% floor would not be deductible in computing the alternative minimum tax for an individual taxpayer. The Partnership will also be required to determine whether expenses incurred directly by the Partnership itself are business expenses or investment expenses that are subject to the foregoing limitations on deductibility. Payments made by the Master Fund or the Partnership with respect to notional principal contracts, such as swaps, may be subject to the foregoing limitations on deductibility. Expenses connected with the marketing and issuing of Partnership interests are not deductible.

Interest expense of the Partnership and the Master Fund generally will be considered "investment interest" for Federal income tax purposes. Generally, investment interest is deductible by an individual only to the extent of his or her net investment income (which for this purpose generally does not include net long-term capital gains or "qualified dividend income"). Investment interest which is not deductible in any taxable year because of this limitation may be carried forward to the succeeding taxable year.