

financial consulting fees, advisory fees and transaction fees that reduce management fees. If the Master Fund failed to file a timely U.S. federal income tax return in respect of its ECI, it may subsequently be precluded from claiming deductions related to the ECI and may be subject to penalties.

In general, a foreign corporation that does not conduct a U.S. trade or business is nonetheless subject to tax at a rate of 30% on the gross amount of certain U.S. source income that is not effectively connected with a U.S. trade or business. This tax is generally collected through withholding by the payer of the income. Any U.S.-source interest received will be subject to 30% withholding unless such interest qualifies as portfolio interest. Portfolio interest generally includes (with certain exceptions) interest paid on registered obligations with respect to which the beneficial owner provides a statement that it is not a U.S. person. The portfolio interest exemption is not available with respect to interest paid to a 10% shareholder of the issuer of the indebtedness and is subject to certain other limitations. There is presently no tax treaty between the United States and the Cayman Islands to reduce the rate from 30%. In addition, the 30% tax does not apply to capital gains (whether long-term or short-term) or to interest paid to a foreign corporation on its deposits with U.S. banks.

U.S. Taxation of Non-U.S. Holders. Non-U.S. Holders generally will not be subject to United States federal income taxation on distributions by the Offshore Feeder Fund in respect of their interests or gain realized on a disposition of an interest, unless (i) the distributions or gains on the interest are attributable to an office or other fixed place of business maintained by the Non-U.S. Holder in the United States, (ii) in the case of gain realized, the Non-U.S. Holder is a non-resident alien individual who is present in the United States for 183 days or more in the taxable year of the disposition or has a “tax home” in the United States or (iii) the Non-U.S. Holder is a former U.S. citizen or resident alien. A Non-U.S. Holder will not be treated as engaged in a U.S. trade or business solely by reason of holding the interest in the Offshore Feeder Fund.

Individual Investors who are neither present nor former U.S. citizens nor U.S. residents (as determined for U.S. estate or gift tax purposes) are not subject to U.S. estate and gift taxes with respect to their ownership of such interest.

U.S. Taxation of U.S. Tax-Exempt Investors. Income recognized by U.S. Holders that are U.S. Tax-Exempt Investors is generally exempt from U.S. federal income tax except to the extent of the entity’s UBTI. UBTI is defined generally as income from a trade or business regularly carried on by a tax-exempt entity that is unrelated to its exempt purpose. Dividends, interest and, with certain exceptions, gains or losses from the sale, exchange or other disposition of property are generally excluded from UBTI. U.S. Tax-Exempt Investors that are “charitable remainder trusts” are subject to a 100% excise tax on their UBTI.

If a U.S. Tax-Exempt Investor’s acquisition of an interest in the Offshore Feeder Fund is debt-financed, the U.S. Tax-Exempt Investor’s “debt-financed income” will be included in computing UBTI and, consequently, all or a portion of such investor’s income attributable to the Offshore Feeder Fund would be included in UBTI, regardless of whether such