

be materially reduced as a result of the “saturation” of the alternative investment field. There can be no assurance that the Management Company will be able to identify or successfully pursue attractive investment opportunities during such periods.

Changing Market Conditions

While it is possible for the Underlying Funds’ current and potential strategies to be profitable during both upward and downward market cycles, there are certain market conditions in which different strategies have a materially reduced likelihood of success. For example, a decline in the corporate issuance of equity-linked securities (e.g., convertible bonds), a lack of financing for event-driven transactions or a persistent but gradual degradation of overall equity and/or debt prices could materially reduce the Partnership’s profit potential. It is impossible to predict future market conditions, and certain market conditions could be materially adverse to the prospects for the Partnership. An Underlying Fund may incur losses or experience unexpected performance volatility and materially underperform other investment funds with similar investment objectives during the same time periods and under the same market conditions.

Selection of Brokers

The Management Company may be subject to conflicts of interest relating to its selection of brokers on behalf of an Underlying Fund. Brokers may provide services that are beneficial to the Management Company and/or other funds managed by the Management Company, but not necessarily beneficial to an Underlying Fund, including, without limitation, capital introduction, marketing assistance, consulting with respect to technology, operations or equipment and other accommodations relating to operational or custody assistance or financing structures that benefit the Partnership or its affiliates, corporate access, access to deal flow and other services or items. Such services and items may influence the Management Company’s selection of brokers. (See “Brokerage Practices.”)

Counterparty Risk

Each Underlying Fund has established relationships and expects to establish additional relationships to execute derivative transactions, or to obtain financing, derivative intermediation, and prime brokerage services that permit such Underlying Fund to trade in any variety of markets or asset classes over time, however, there can be no assurance that the Underlying Fund will be able to establish or maintain such relationships. An inability to establish or maintain such relationships could limit the Underlying Fund’s trading activities, create losses, preclude the Underlying Fund from engaging in certain transactions, or trading at optimal rates and terms. In particular, there is a risk that an Underlying Fund’s counterparties may be required to restrict the amount of credit granted to such Underlying Fund due to such counterparty’s own financial difficulties, which could result in a forced liquidation of a substantial portion of the Underlying Fund’s portfolio. Moreover, a disruption in the derivative trading, financing, derivative intermediation, and prime brokerage services provided by any such relationships before the Underlying Fund establishes additional relationships could have a significant impact on the Underlying Fund’s business due to the Underlying Fund’s reliance on such counterparties. These risks are accentuated for contracts with longer maturities, where events may intervene to prevent settlement.