judicial interpretations thereof, a material adverse change in facts, or otherwise), the taxable income of the Partnership would be subject to corporate income tax when recognized by the Partnership; distributions of such income, other than in certain withdrawals of Interests, would be treated as dividend income when received by the Partners to the extent of the current or accumulated earnings and profits of the Partnership; and Partners would not be entitled to report profits or losses realized by the Partnership.

The Master Fund operates as a pass-through entity for Federal tax purposes and not as an entity taxable as a corporation. The HB Fund will be treated as a disregarded entity wholly owned by the Partnership. Unless otherwise indicated, references in the following discussion to the tax consequences of Partnership investments, activities, income, gain and loss, include the direct investments, activities, income, gain and loss of the Partnership, and those indirectly attributable to the Partnership as a result of its being a member of an Underlying Fund and/or an investor in a Trading Vehicle or other investment entity treated as a pass-through entity for Federal income tax purposes.

As a partnership, the Partnership generally is not itself subject to Federal income tax (see, however, "Tax Elections; Returns; Tax Audits" below). The Partnership files an annual partnership information return with the Service which reports the results of operations. Each Partner is required to report separately on its income tax return its distributive share of the Partnership's net long-term capital gain or loss, net short-term capital gain or loss and all other items of ordinary income or loss. Each Partner is taxed on its distributive share of the Partnership's taxable income and gain regardless of whether it has received or will receive a distribution from the Partnership.

Allocation of Profits and Losses. Under the Partnership Agreement, the Partnership's net capital appreciation or net capital depreciation for each accounting period is allocated among the Partners and is debited or credited to their Capital Accounts without regard to the amount of income or loss actually recognized by the Partnership for Federal income tax purposes. The Partnership Agreement provides that items of income, deduction, gain, loss or credit recognized by the Partnership for each fiscal year generally are to be allocated for income tax purposes among the Partners pursuant to the principles of Regulations issued under Sections 704(b) and 704(c) of the Code, based upon amounts of the Partnership's net capital appreciation or net capital depreciation allocated to each Partner's Capital Account for the current and prior fiscal years. There can be no assurance, however, that the particular methodology of allocations used by the Partnership will be accepted by the Service. If such allocations are successfully challenged by the Service, the allocation of the Partnership's tax items among the Partners may be affected.

Under the Partnership Agreement, the General Partner has the discretion to allocate specially an amount of the Partnership's ordinary income and/or capital gain (including short-term capital gain) and deductions, ordinary loss and/or capital loss (including long-term capital loss) for Federal income tax purposes to a withdrawing Partner to the extent that the Partner's Capital Account exceeds, or is less than, as the case may be, its Federal income tax basis in its partnership interest. There can be no assurance that, if the General Partner makes any such special allocations, the Service will accept such allocations. If such allocations are successfully challenged by the Service, the Partnership's tax items allocable to the remaining Partners would be affected.