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Memorandum No.: \_\_\_\_\_

**PRELIMINARY CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM**

**BEAR STEARNS  
HIGH-GRADE STRUCTURED CREDIT  
STRATEGIES ENHANCED LEVERAGE FUND, L.P.**

*Limited Partnership Interests*

THE LIMITED PARTNERSHIP INTERESTS ("INTERESTS") OF BEAR STEARNS HIGH-GRADE STRUCTURED CREDIT STRATEGIES ENHANCED LEVERAGE FUND, L.P. (THE "PARTNERSHIP") DESCRIBED IN THIS CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM (THE "MEMORANDUM") HAVE NOT BEEN REGISTERED WITH OR APPROVED BY THE SECURITIES AND EXCHANGE COMMISSION (THE "SEC") OR ANY STATE SECURITIES AGENCY. THIS IS A PRIVATE OFFERING PURSUANT TO EXEMPTIONS PROVIDED BY SECTION 4(2) OF THE SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), RULE 506 THEREUNDER, AND APPLICABLE STATE SECURITIES LAWS. NEITHER THE SEC NOR ANY STATE AGENCY HAS PASSED UPON THE VALUE OF THESE SECURITIES, MADE ANY RECOMMENDATIONS AS TO THEIR PURCHASE, APPROVED OR DISAPPROVED THIS OFFERING, OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

**BEAR STEARNS ASSET MANAGEMENT INC.**

*General Partner*

383 Madison Avenue  
New York, New York 10179

**August 2006**

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### CFTC NOTICE

BEAR STEARNS ASSET MANAGEMENT INC. IS EXEMPT FROM, AND MAY NOT MAINTAIN, REGISTRATION WITH THE COMMODITY FUTURES TRADING COMMISSION ("COMMISSION") AS A COMMODITY POOL OPERATOR AND THEREFORE, UNLIKE A NON-EXEMPT COMMODITY POOL OPERATOR, IS NOT REQUIRED TO DELIVER A DISCLOSURE DOCUMENT AND A CERTIFIED ANNUAL REPORT TO PARTICIPANTS IN THE POOL. THE POOL IS OPERATED PURSUANT TO THE FOLLOWING CRITERIA: (I) INTERESTS IN THE POOL ARE EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT, AND SUCH INTERESTS MAY NOT BE OFFERED AND SOLD THROUGH A PUBLIC OFFERING IN THE UNITED STATES; AND (II) (A) EACH NATURAL PERSON PARTICIPANT (INCLUDING SUCH PERSON'S SELF-DIRECTED EMPLOYEE BENEFIT PLAN, IF ANY), IS A "QUALIFIED ELIGIBLE PERSON", AS THAT TERM IS DEFINED IN 17 C.F.R. SECTION 4.7(A)(2); AND (B) EACH NON-NATURAL PERSON PARTICIPANT IS A "QUALIFIED ELIGIBLE PERSON", AS THAT TERM IS DEFINED IN 17 C.F.R. SECTION 4.7, OR AN "ACCREDITED INVESTOR", AS THAT TERM IS DEFINED IN 17 C.F.R. SECTION 230.501(A)(1)-(3), (A)(7) AND (A)(8).

### NOTICES TO ALL INVESTORS

INTERESTS ARE SPECULATIVE AND INVOLVE A SUBSTANTIAL RISK OF LOSS, INCLUDING THE POSSIBILITY OF THE TOTAL LOSS OF AN INVESTMENT THEREIN. CONSEQUENTLY, THEY ARE AVAILABLE ONLY TO PERSONS WILLING AND ABLE TO BEAR SUCH RISK. SEE "CERTAIN RISK FACTORS". A PROSPECTIVE INVESTOR SHOULD CAREFULLY READ THIS MEMORANDUM TO EVALUATE THE RISKS INVOLVED IN LIGHT OF SUCH INVESTOR'S INVESTMENT OBJECTIVES AND FINANCIAL RESOURCES.

THE INTERESTS ARE NOT INSURED OR GUARANTEED BY THE UNITED STATES FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY. THE INTERESTS ARE NOT DEPOSITS OR OTHER OBLIGATIONS OF ANY BANK OR OTHER FINANCIAL INSTITUTION, AND ARE NOT GUARANTEED BY ANY BANK OR OTHER FINANCIAL INSTITUTION. THE INTERESTS ARE SUBJECT TO INVESTMENT RISKS, INCLUDING THE POSSIBLE LOSS OF THE ENTIRE AMOUNT INVESTED.

THE INTERESTS ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. IN ADDITION, INTERESTS ARE NOT TRANSFERABLE WITHOUT THE CONSENT OF BEAR STEARNS ASSET MANAGEMENT INC., THE GENERAL PARTNER OF THE PARTNERSHIP (THE "GENERAL PARTNER"). INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF AN INVESTMENT IN INTERESTS FOR AN INDEFINITE PERIOD OF TIME.

THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER OR SOLICITATION IN ANY STATE OR JURISDICTION IN WHICH SUCH AN OFFER OR SOLICITATION IS UNLAWFUL.

THIS MEMORANDUM CONSTITUTES AN OFFER ONLY IF DELIVERY OF THIS MEMORANDUM IS PROPERLY AUTHORIZED BY THE GENERAL PARTNER OR AN APPROVED PLACEMENT AGENT. THIS MEMORANDUM HAS BEEN PREPARED BY THE GENERAL PARTNER SOLELY FOR THE BENEFIT OF PERSONS INTERESTED IN THE PROPOSED SALE OF INTERESTS, AND ANY REPRODUCTION OF THIS MEMORANDUM, IN WHOLE OR IN PART, OR THE DIVULGENCE OF ANY OF ITS CONTENTS WITHOUT THE PRIOR WRITTEN CONSENT OF THE GENERAL PARTNER IS PROHIBITED. ANY CONTRARY ACTION MAY PLACE THE PERSON OR PERSONS TAKING SUCH ACTION IN VIOLATION OF STATE AND FEDERAL SECURITIES LAWS. THE OFFEREE AGREES TO RETURN THIS MEMORANDUM TO THE GENERAL PARTNER UPON REQUEST.

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DURING THE COURSE OF THIS OFFERING AND PRIOR TO SALE, EACH OFFEREE OF INTERESTS AND ITS OFFEREE REPRESENTATIVE(S), IF ANY, ARE INVITED TO QUESTION THE GENERAL PARTNER CONCERNING THE TERMS AND CONDITIONS OF THE OFFERING AND TO OBTAIN ADDITIONAL INFORMATION, TO THE EXTENT THE GENERAL PARTNER HAS SUCH INFORMATION OR CAN ACQUIRE IT WITHOUT UNREASONABLE EXPENSE OR EFFORT, CONCERNING THE OFFERING OR TO VERIFY THE ACCURACY OF INFORMATION CONTAINED IN THIS MEMORANDUM. SUBJECT TO THE FOREGOING, ANY REPRESENTATION OR INFORMATION NOT CONTAINED HEREIN MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE PARTNERSHIP OR ITS GENERAL PARTNER SINCE NO PERSON HAS BEEN AUTHORIZED TO MAKE ANY SUCH REPRESENTATIONS OR TO PROVIDE ANY SUCH INFORMATION. THE DELIVERY OF THIS MEMORANDUM DOES NOT IMPLY THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY DATE SUBSEQUENT TO THE DATE ON THE COVER HEREOF.

PROSPECTIVE INVESTORS ARE NOT TO CONSTRUCT THE CONTENTS OF THIS MEMORANDUM AS LEGAL OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT WITH PROFESSIONAL ADVISERS AS TO LEGAL, TAX, ACCOUNTING AND RELATED CONSEQUENCES OF AN INVESTMENT IN THE PARTNERSHIP AND AS TO THE SUITABILITY OF AN INVESTMENT IN THE PARTNERSHIP IN LIGHT OF SUCH INVESTOR'S INDIVIDUAL CIRCUMSTANCES.

EXCEPT AS EXPRESSLY CONTEMPLATED BY THIS MEMORANDUM, NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION OTHER THAN AS CONTAINED HEREIN IN CONNECTION WITH THE MATTERS DESCRIBED HEREIN, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED.

NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THIS MEMORANDUM, A PROSPECTIVE INVESTOR (AND EACH EMPLOYEE, REPRESENTATIVE OR OTHER AGENT OF A PROSPECTIVE INVESTOR) MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE TAX TREATMENT AND TAX STRUCTURE OF THE TRANSACTIONS DESCRIBED IN THIS MEMORANDUM AND ALL MATERIALS OF ANY KIND THAT ARE PROVIDED TO THE PROSPECTIVE INVESTOR RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE (AS SUCH TERMS ARE DEFINED IN TREASURY REGULATION SECTION 1.6011-4). THIS AUTHORIZATION OF TAX DISCLOSURE IS RETROACTIVELY EFFECTIVE TO THE COMMENCEMENT OF DISCUSSIONS WITH PROSPECTIVE INVESTORS.

THIS MEMORANDUM CONTAINS A FAIR SUMMARY OF THE MATERIAL TERMS OF THE INFORMATION PURPORTED TO BE SUMMARIZED HEREIN; HOWEVER, THIS IS A SUMMARY ONLY AND DOES NOT PURPORT TO BE COMPLETE. ACCORDINGLY, REFERENCE IS MADE TO THE AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT OF THE PARTNERSHIP (THE "PARTNERSHIP AGREEMENT") AND THE OTHER AGREEMENTS, DOCUMENTS, STATUTES AND REGULATIONS REFERRED TO HEREIN FOR THE EXACT TERMS OF SUCH PARTNERSHIP AGREEMENT AND OTHER AGREEMENTS, DOCUMENTS, STATUTES AND REGULATIONS. CAPITALIZED TERMS NOT OTHERWISE DEFINED HEREIN HAVE THE MEANINGS ASCRIBED TO THEM IN THE PARTNERSHIP AGREEMENT.

**SPECIAL NOTICE TO FLORIDA INVESTORS**

IF THE INVESTOR IS NOT A BANK, A TRUST COMPANY, A SAVINGS INSTITUTION, AN INSURANCE COMPANY, A DEALER, AN INVESTMENT COMPANY AS DEFINED IN THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED, A PENSION OR PROFIT-SHARING TRUST, OR A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT), THE INVESTOR ACKNOWLEDGES THAT ANY SALE OF AN INTEREST TO THE INVESTOR IS VOIDABLE BY THE INVESTOR EITHER WITHIN THREE DAYS AFTER THE FIRST TENDER OF CONSIDERATION IS MADE BY THE INVESTOR TO THE ISSUER, OR AN AGENT OF THE ISSUER, OR WITHIN THREE DAYS AFTER THE AVAILABILITY OF THAT PRIVILEGE IS COMMUNICATED TO THE INVESTOR, WHICHEVER OCCURS LATER.

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**BEAR STEARNS HIGH-GRADE STRUCTURED CREDIT STRATEGIES ENHANCED  
LEVERAGE FUND, L.P.**

**DIRECTORY**

**Partnership**

Bear Stearns High-Grade Structured Credit Strategies Enhanced Leverage Fund, L.P.  
c/o Bear Stearns Asset Management Inc.  
383 Madison Avenue  
New York, New York 10179

**Placement Agents**

Bear, Stearns & Co. Inc., certain of its affiliates  
and certain non-affiliated selling agents

**General Partner of the Partnership and Investment Manager of the Master Fund**

Bear Stearns Asset Management Inc.  
383 Madison Avenue  
New York, New York 10179

**Auditors of the Partnership**

Deloitte & Touche  
1700 Market Street  
Philadelphia, Pennsylvania 19103

**Counsel to the General Partner**

Sidley Austin LLP  
787 Seventh Avenue  
New York, New York 10019

**Administrator, Registrar and Transfer Agent of the Partnership**

PFPC Inc. (Delaware)  
301 Bellevue Parkway  
Wilmington, Delaware 19809

**Administrator, Registrar and Transfer Agent of the Master Fund**

PFPC Inc. (Delaware)  
301 Bellevue Parkway  
Wilmington, Delaware 19809

**Prime Broker to the Master Fund**

Bear, Stearns Securities Corp.  
One Metrotech Center North  
Brooklyn, New York 11201

**Leverage Instrument Counterparty**

Barclays Bank PLC  
1 Churchill Place  
London, E14 5HP  
England

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# BEAR STEARNS HIGH-GRADE STRUCTURED CREDIT STRATEGIES ENHANCED LEVERAGE FUND, L.P.

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## INTRODUCTION

Bear Stearns High-Grade Structured Credit Strategies Enhanced Leverage Fund, L.P. is a Delaware limited partnership (the "Partnership") formed on June 9, 2006. The primary objective of the Partnership is to seek high current income and capital appreciation relative to LIBOR. There can be no assurance that the Partnership will achieve this objective or that substantial losses will not be incurred. Bear Stearns Asset Management Inc., a corporation formed under the laws of the State of New York ("BSAM" or the "General Partner"), serves as the general partner of the Partnership. BSAM also serves as the investment manager (in such capacity, the "Investment Manager") to Bear Stearns High-Grade Structured Credit Strategies Enhanced Leverage Master Fund, Ltd. (the "Master Fund"), an exempted company incorporated under the laws of the Cayman Islands. BSAM is the asset management subsidiary of The Bear Stearns Companies Inc. ("BSC") and, as described further herein, is an affiliate of Bear, Stearns & Co. Inc. ("Bear Stearns"), a broker-dealer subsidiary of BSC, and of Bear Stearns Securities Corp., the Partnership's prime broker and wholly-owned subsidiary of BSC. All investment and trading decisions on behalf of the Master Fund will be made by the Investment Manager.

The Partnership does not currently trade directly but rather invests synthetically through a leveraged total return swap (the "Leverage Instrument") indexed generally to 2.75 times the performance of the Master Fund. Mr. Ralph Cioffi, Mr. Matthew Tannin and Mr. Ray McGarrigal are primarily responsible for directing the Investment Manager's investments for the Master Fund. The Master Fund intends to achieve its investment objective primarily through leveraged investments in investment-grade structured finance securities, although the Master Fund intends to seek investment opportunities beyond the structured finance asset category. As part of its strategy, the Master Fund intends to gain exposure, on a non-recourse leveraged basis, to investment-grade structured finance securities by means of the Master Fund's purchase of the equity securities and other securities issued by structured vehicles (such as collateralized debt obligations "CDOs") that invest, on a leveraged or unleveraged basis, primarily in investment-grade structured finance securities (such as CDOs). The Master Fund will make investments in other structured finance assets including asset-backed securities ("ABSs"), synthetic ABSs, mortgage-backed securities ("MBSs") and global structured asset securitizations. The Master Fund will make investments (or otherwise take on risk) in both the traditional "cash" market and the derivatives market. In addition, the Master Fund may invest in various derivatives, including primarily credit-default swaps, but also options, swaps, swaptions, futures and forward contracts (both listed and over-the-counter) on various financial instruments, equity securities and currencies. The Master Fund will generally operate up to a Net Leverage (as defined herein) of its investments, of 10 to 1, though the General Partner may use greater leverage or less leverage at times in its discretion. Master Fund positions may be financed by various sources of funding, including margin, bank lines and the repurchase markets (which may be provided by Bear Stearns or by or through an affiliate thereof). As the Partnership is expected to have up to 2.75 times leveraged exposure to the Master Fund, and the Master Fund's positions in turn are expected to be highly leveraged, the Partnership's Net Asset Value (as defined herein) may increase or decrease at a greater rate than if leverage were not used.

While the Investment Manager may implement a combination of the investment strategies described herein, the composition of the investment portfolio will vary as opportunities dictate, and it is not possible to predict the degree of profitability, if any, which may be achieved from any particular strategy or investment. Further, the Investment Manager may develop new strategies or modify existing strategies with a view towards achieving the Master Fund's investment objectives.

The Partnership will invest substantially all of its assets synthetically through the Leverage Instrument in a "master-feeder" structure, conducting most if not all of its investment and trading activities indirectly through an investment in the Master Fund, a company formed to conduct trading activities on behalf of the Partnership and other entities managed by BSAM or its affiliates. The purpose of the Master Fund is to achieve trading and administrative efficiencies. No additional fees are payable by the Partnership in connection with the Partnership's investment in the Master Fund. The Partnership is responsible, as an investor in the Master Fund, for its *pro rata* share of the Master Fund's operating and overhead expenses. Although investment and trading is currently anticipated to be only at the Master Fund level, the General Partner may also trade at the Partnership level in the future. References to the Partnership's or the Master Fund's investments and portfolio in this Memorandum refer to the combined investments and portfolio of the Partnership, the Master Fund and the Other Feeder Funds (as defined below) and references to the General Partner or the Investment Manager and its investment strategy and operations refer to Bear

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Stearns Asset Management Inc., as both General Partner of the Partnership and investment manager of the Master Fund, and its roles in connection with each respectively, unless the context suggests otherwise.

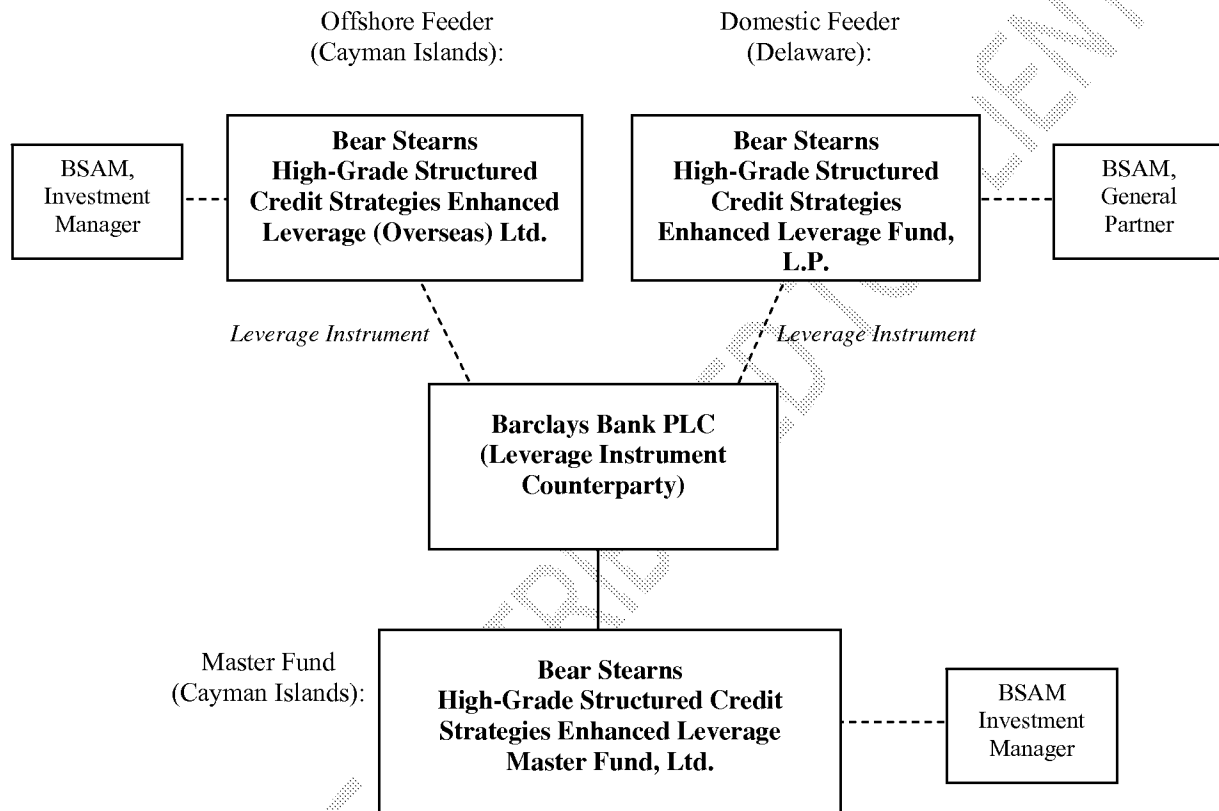
The Partnership offers suitable investors an opportunity to diversify a portion of the risk segments of their portfolios into an investment field in which profits can be recognized in a vehicle providing limited liability and administrative convenience.

***There can be no assurance that the Partnership will achieve its investment objectives or avoid substantial losses. No investor should make an investment in the Partnership with the expectation of sheltering income or receiving cash distributions. Potential investors are urged to consult with their personal tax advisers in connection with any investment in the Partnership.***

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TRANSACTION DIAGRAM



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## SUMMARY OF PRINCIPAL TERMS

*The following summary is qualified in its entirety by reference to the more detailed information included elsewhere in this Confidential Private Placement Memorandum (the “Memorandum”) and in the Partnership’s Amended and Restated Limited Partnership Agreement (the “Partnership Agreement”). Capitalized terms used but not defined herein have the meaning set forth in the Partnership Agreement.*

### THE PARTNERSHIP

THE PARTNERSHIP	Bear Stearns High-Grade Structured Credit Strategies Enhanced Leverage Fund, L.P., a Delaware limited partnership formed on June 9, 2006.
THE MASTER FUND	<p>Bear Stearns High-Grade Structured Credit Strategies Enhanced Leverage Master Fund, Ltd., an exempted company incorporated under the laws of the Cayman Islands. Although investment and trading is currently anticipated to be only at the Master Fund level, the General Partner may also trade at the Partnership level in the future. The Partnership will invest substantially all of its assets synthetically through the Leverage Instrument in a “master-feeder” structure, conducting most if not all of its investment and trading activities indirectly through an investment in the Master Fund, a company formed to conduct trading activities on behalf of the Partnership and other entities managed by BSAM or its affiliates. From time to time, other funds or investment products (collectively, the “Other Feeder Funds”) may invest in the Master Fund. As of the date hereof, such Other Feeder Funds include Bear Stearns High-Grade Structured Credit Strategies Enhanced Leverage (Overseas) Ltd. (the “Offshore Enhanced Leverage Feeder Fund”), an exempted company incorporated under the laws of the Cayman Islands to facilitate investment by non-U.S. investors and tax-exempt U.S. investors, that invests substantially all of its assets in the Master Fund on a synthetic leveraged basis similar to that of the Partnership. References herein to the Partnership in respect of its investment program and related matters include reference to the Master Fund and the Other Feeder Funds, as applicable. See “The Investment Program”.</p>
GENERAL PARTNER AND INVESTMENT MANAGER	<p>Bear Stearns Asset Management Inc., a corporation formed under the laws of the State of New York (the “General Partner” or “BSAM”), serves as the general partner of the Partnership and as the investment manager of each of the Master Fund and the Other Feeder Funds.</p> <p><i>BSAM also operates Bear Stearns High-Grade Structured Credit Strategies Master Fund, Limited (the “High-Grade Fund”), an investment vehicle which has an investment strategy similar to that of the Master Fund, but is not subject to the same investment restrictions or considerations relating to the additional leverage provided under the Leverage Instrument. Accordingly, the investment portfolio and strategies of the Master Fund may differ substantially from those of the High-Grade Fund, and past performance of the High-Grade Fund or any of its feeder funds is not necessarily indicative of the future performance of the Master Fund or the Partnership.</i></p>
INVESTMENT OBJECTIVE AND APPROACH	<p>The Partnership aims to seek (primarily through its investment in the Master Fund) high current income and capital appreciation relative to LIBOR. The Partnership intends to achieve its investment objective primarily through leveraged investments in investment-grade structured finance securities, although the Partnership intends to seek investment opportunities beyond the structured finance asset category. As part of its strategy, the Partnership intends to gain exposure, on a non-recourse leveraged basis, to investment-grade structured finance securities by means of the Master Fund’s purchase of the equity securities and other securities issued by structured vehicles (such as CDOs) that invest, on a leveraged or unleveraged basis,</p>

primarily in investment-grade structured finance securities (such as CDOs). There can be no assurance that the Partnership will achieve its investment objective or avoid substantial losses.

**LEVERAGE INSTRUMENT** The Partnership will enter into an over-the-counter, total return swap (the “Leverage Instrument”) with Barclays Bank PLC as counterparty (the “Leverage Instrument Counterparty”), which references the Master Fund. (See “*The Leverage Instrument Counterparty*”.) The Partnership will pay the Leverage Instrument Counterparty an amount equal to substantially all of the proceeds from the issuance of the Interests and will receive a return indexed to an investment in the Master Fund with a targeted leverage of 2.75 times the amount invested. The General Partner may in its discretion reduce such leverage. The leverage inherent in the Leverage Instruments will cause a greater volatility of returns than would a direct non-leveraged investment in the Master Fund.

If the Leverage Instrument is terminated, the General Partner may invest the proceeds received upon termination in a swap or other instrument and with a counterparty that, in the determination of the Investment Manager, would provide the Partnership with economic terms and a risk profile substantially similar to the Leverage Instrument. Following termination of the Leverage Instrument and prior to entering into any such new arrangement, the Partnership may invest its assets directly in the Master Fund on an unleveraged basis.

**PLACEMENT AGENTS** Bear, Stearns & Co. Inc. (“Bear Stearns”), certain of its affiliates and certain non-affiliated selling agents (collectively, “Placement Agents”) may serve as placement agents with respect to Interests, subject to prior sale, when, as and if delivered, and subject to certain other conditions.

**ADMINISTRATOR, REGISTRAR AND TRANSFER AGENT** PFPC Inc. (Delaware) serves as the administrator, registrar and transfer agent of the Partnership, the Master Fund and the Other Feeder Funds (the “Administrator”).

**RISKS** *An investment in the Partnership is speculative and involves substantial risks and conflicts of interest. Interests are suitable only for investors who can afford to lose all or a substantial portion of their investment. See “Certain Risk Factors” and “Conflicts of Interest”.*

#### THE OFFERING

**THE OFFERING** This Memorandum relates to an offering of limited partnership interests in the Partnership (the “Interests”). The Partnership will offer Interests generally as of the opening of business of the first Business Day (as defined below) of each month or on such other days as the General Partner, in its sole discretion, may allow (each, a “Subscription Date”).

There is no limit on the total amount of subscriptions that may be accepted on behalf of the Partnership.

The Partnership must receive at least \$15,000,000 in subscriptions in order for the Partnership to begin operations. If such minimum subscription is not made within 120 days of the date set forth on the cover page of this Memorandum, the offering of Interests will be terminated and subscriptions cancelled.

It is expected that on the initial closing of the Partnership, substantially all of the investments will be made by existing investors in Bear Stearns High-Grade

Structured Credit Strategies, L.P. (the "U.S. High-Grade Fund"), an investment vehicle which has an investment strategy similar to that of the Partnership, which investments will be made, directly or indirectly in exchange for an in-kind contribution of assets from the U.S. High-Grade Fund to the Partnership.

**MINIMUM INVESTMENT** The minimum initial subscription amount for each new investor in the Partnership is \$1,000,000. The minimum additional investment is \$500,000. The General Partner may accept or reject any initial and additional subscriptions and waive the minimum subscription amounts in its sole discretion.

**SUBSCRIPTION PROCEDURE** Prospective investors must complete and execute a subscription agreement (the "Subscription Agreement"), which must be delivered to the General Partner. Subscription Agreements must generally be received by the General Partner five Business Days prior to the relevant Subscription Date (or shorter period acceptable to the General Partner). All investors must also make arrangements with the General Partner for the transmission of their subscription funds two Business Days prior to the relevant Subscription Date before 5:00 p.m. (New York time), or such shorter period acceptable to the General Partner. A Subscription Agreement is attached hereto as Annex B.

**ELIGIBLE INVESTORS** The Partnership is conducting a private offering pursuant to Section 4(2) of the Securities Act of 1933 (the "Securities Act") and Regulation D thereunder. The Partnership is exempt from registration as an investment company under the Investment Company Act of 1940, as amended (the "Company Act") pursuant to Section 3(c)(7) thereof. Investors must be "Accredited Investors" as defined in Regulation D under the Securities Act and must be "qualified purchasers", as defined under Section 2(a)(51) of the Company Act. Unless otherwise permitted by the General Partner in its sole discretion, Interests may not be purchased by persons who are not U.S. persons or persons who are exempt from U.S. federal income taxation. In lieu of an investment in the Partnership, any organization exempt from U.S. federal income taxation may want to consider and should consult with the General Partner regarding an investment in the Offshore Enhanced Leverage Feeder Fund.

**AFFILIATED INVESTORS** The General Partner or its principals or affiliates will initially invest at least \$10,000,000 in the Partnership. The General Partner, its principals and/or its affiliates may from time to time, directly or through other investment vehicles (including one or more investment vehicles formed for the benefit of Bear Stearns and its affiliates), make additional investments in the Partnership and/or invest in the Offshore Enhanced Leverage Feeder Fund. The General Partner, its principals and/or its affiliates are not required to maintain any investment in the Partnership or the Offshore Enhanced Leverage Feeder Fund, and may withdraw its investment in the Partnership at any time without notice to Limited Partners.

#### FEES, PROFIT SHARE, AND EXPENSES

**ORGANIZATIONAL EXPENSES**

The Master Fund will pay the expenses of organizing the Partnership, the Master Fund and the Offshore Enhanced Leverage Feeder Fund and the initial offering of Interests and shares of the Offshore Enhanced Leverage Feeder Fund. Such expenses are being amortized on a straight-line basis over a period of not less than 60 months, beginning as of the commencement of operations of the Master Fund unless the Master Fund Directors decide that some other amortization method shall be applied. The Master Fund Directors believe that such amortization is more equitable than requiring the initial investors of the Partnership and the Offshore Enhanced Leverage Feeder Fund to bear all such organizational expenses as would otherwise be required under generally accepted accounting principles ("GAAP").

The Partnership will bear, as an investor in the Master Fund, its *pro rata* share of all such organizational expenses.

ADVISORY FEE

The Partnership will pay to the General Partner an advisory fee (the "Advisory Fee") equal to 1/12 of 2.0% of the balance of each Limited Partner's Capital Account calculated as of the end of each calendar month (pro rated for periods of less than one month) prior to any accrual for or payment of any Advisory Fee, allocation of Profit Share or withdrawal effected on such date (approximately a 2.0% annual rate). The Advisory Fee is payable in arrears as of the last Business Day of each calendar quarter or upon the withdrawal of a Limited Partner from the Partnership. The General Partner may, in its sole discretion, waive all or a portion of the Advisory Fee due to the General Partner from any Limited Partner.

PROFIT SHARE

The General Partner will also be allocated a profit share ("Profit Share") at the end of the relevant Accounting Period (as defined herein) in an amount equal to 20% of Net New Income in respect of each Limited Partner's Capital Account. The Profit Share will be allocable with respect to each Limited Partner's Capital Account for each Accounting Period ending as of the end of each calendar year, as of the date of any withdrawal from such Capital Account (with respect to the amount withdrawn only), as of the date of any transfer of an interest in such Capital Account (with respect to the amount transferred only) and as of the date of dissolution of the Partnership.

"Net New Income" in respect of a Limited Partner's Capital Account as of a particular date is the amount, if any, by which Cumulative Net Income in respect of such Capital Account determined as of such date exceeds the High Water Mark in respect of such Capital Account. The General Partner may, in its sole discretion, waive all or a portion of the Profit Share due to the General Partner from any Limited Partner. "Cumulative Net Income" in respect of a Limited Partner's Capital Account as of a particular date is the amount, if any, by which (1) aggregate realized and unrealized gains, and aggregate items of operating income, credited to such Capital Account during the entire life of the Partnership to and including such date exceeds (2) aggregate realized and unrealized losses, and aggregate items of operating expenses, charged against such Capital Account during the entire life of the Partnership to and including such date (without charging any of the General Partner's Profit Share against such Capital Account). "High Water Mark" in respect of a Limited Partner's Capital Account as of a specified date means (1) zero, until after the first calculation of a positive Profit Share in respect of such Capital Account pursuant to the foregoing provisions and, thereafter, (2) the highest amount of Cumulative Net Income previously calculated in respect of such Capital Account in accordance with the foregoing provisions.

If a Profit Share is allocated to the General Partner in respect of a Limited Partner's Capital Account and a loss is subsequently charged to such Capital Account, the General Partner is entitled to retain all Profit Shares previously allocated to it in respect of that account. No subsequent Profit Share is allocable to the General Partner in respect of such Capital Account until such loss has been made up. If a withdrawal is made from a Capital Account at a time when there is a loss carryforward for such Capital Account (*i.e.*, Cumulative Net Income is below the High Water Mark), then such loss carryforward shall be reduced in proportion to the percentage of such Capital Account withdrawn.

OPERATIONAL EXPENSES

The Partnership will bear its operational expenses, including (without limitation) research expenses; legal fees; expenses of the continuous offering of Interests, including the cost of producing and distributing offering memoranda and other marketing materials; printing and mailing costs; filing fees and expenses;

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accounting, audit, and tax preparation expenses; computer software, licensing, programming and operating expenses; data processing costs; consultant fees; tax, litigation, and extraordinary expenses, if any; interest expenses (including interest due to repurchase agreements and borrowing by the Partnership); insurance expenses, custody fees, bank charges, brokerage commissions (including options trades); spreads and mark-ups on securities, swaps and forwards; short dividends, currency hedging costs, if any, and other investment and operating expenses. In addition, the Partnership will bear the costs associated with the Leverage Instrument, including the accrual of a financing charge of 1-month USD LIBOR plus up to 1.20% per annum, compounding monthly.

The Partnership will also bear, as an investor in the Master Fund, its *pro rata* share of the Master Fund's operational expenses, including, without limitation, interest expenses (including interest due to repurchase agreements and borrowing by the Master Fund); insurance expenses, custody fees, bank charges, brokerage commissions (including options trades); spreads and mark-ups on securities, swaps and forwards, short dividends, currency hedging costs, and other investment and operating expenses, the fees and out-of-pocket expenses of the Administrator and the Master Fund's board of directors. The Investment Manager and the Administrator will each bear the costs of providing their respective services to the Partnership and the Master Fund, including their general overhead, salary, and office expenses.

#### SELLING COMMISSION

Bear, Stearns & Co. Inc. and certain of its affiliates, to the extent they act as Placement Agents to the Partnership will be compensated by the General Partner with payments based upon a percentage of the General Partner's Advisory Fee and/or Profit Share. Certain non-affiliated Placement Agents may be paid up to 3% of an investor's subscription price for Interests. Such commission may be waived or reduced by any such Placement Agent in respect of particular investors.

#### BROKERAGE COMMISSIONS

The General Partner transacts with brokers and dealers (including its affiliates) on the basis of best execution and in consideration of such broker's or dealer's ability to effect the transactions, the facilities, reliability and financial responsibility of such broker or dealer, and the provision or payment (or rebate to the Master Fund for payment) by such broker or dealer of the costs of research and brokerage services which are of benefit to the Partnership, the Master Fund, the General Partner and related investment vehicles and accounts. Bear, Stearns Securities Corp. ("BSSC" or the "Prime Broker") serves as prime broker and custodian for the Master Fund and clear (generally on the basis of payment against delivery) the Master Fund's securities transactions which are effected through other brokerage firms. BSSC or an affiliated entity or unit thereof (including Bear Stearns) may also execute orders to the extent permitted by applicable regulations and receive commissions, fees and other compensation in connection therewith. See "*Brokerage Practices*" and "*Conflicts of Interest*".

#### LIQUIDITY

#### WITHDRAWALS

Subject to the conditions and limitations described herein, (i) a Limited Partner may, upon not less than 40 days' prior written notice to the General Partner, withdraw all or a portion of such Limited Partner's Capital Account as of the last Business Day of any calendar month, subject to a withdrawal fee of 2% of the amount withdrawn unless such withdrawal fee is reduced or waived by the General Partner in its sole discretion and (ii) a Limited Partner may, upon not less than 60 days' prior written notice to the General Partner, withdraw all or a portion of such Limited Partner's Capital Account attributable to a capital contribution as of the last Business Day of the twelfth month-end following such capital contribution and every subsequent third month-end following the first year anniversary of such



capital contribution without being subject to any withdrawal fee (each such date, a "Withdrawal Date").

Partial withdrawals may not reduce a Limited Partner's Capital Account to less than the minimum investment of \$1,000,000, unless such minimum is reduced or waived by the General Partner in its sole discretion.

If a Limited Partner makes capital contributions at different times, each capital contribution will be treated separately for the purpose of determining any applicable withdrawal fee, and withdrawals will be deemed to be made from the earliest capital contribution (as adjusted for changes in the Net Asset Value). The withdrawal fees described above are payable to the Partnership and are intended generally to cover anticipated expenses relating to the liquidation of Master Fund assets required to fund the relevant withdrawals, including "breakage costs". The General Partner may reduce or waive such withdrawal fees for any Limited Partner to the extent that it determines in its sole discretion that the Partnership will not incur such expenses or that the Partnership will not otherwise be materially disadvantaged by such reduction or waiver. The General Partner, however, will in no event be obligated to reduce or waive such withdrawal fees, including when there are no such expenses.

The General Partner may permit withdrawals on such shorter notice or on any date other than a Withdrawal Date (such withdrawals to be made on the basis of estimated Net Asset Values) in its sole and absolute discretion.

If, for any calendar quarter, the aggregate amount of withdrawal requests from the Partnership, together with redemption requests from the Other Feeder Funds, exceeds in value 25% of the net asset value of the Master Fund, determined as of the beginning of such calendar quarter and as adjusted for subscriptions during such calendar quarter, the General Partner (in such capacity and as investment manager or sponsor of the Other Feeder Funds) may elect to limit such withdrawals and redemptions to an aggregate value of not more than 25% of the net asset value of the Master Fund, allocating such withdrawals and redemptions *pro rata* according to the value of each withdrawing Limited Partner's Capital Account prior to its withdrawal request and the value of the shares/units of each redeeming investor of the Other Feeder Funds prior to its redemption request. Any unhonored portion of a withdrawal request will remain invested in the Partnership, and will be deferred to the next Withdrawal Date subject to the same limitation.

#### MANDATORY WITHDRAWALS

The General Partner may compel a Limited Partner to withdraw entirely from the Partnership, or to withdraw any portion of such Limited Partner's Capital Account, at any time without notice, if the General Partner reasonably believes that such Limited Partner subscribed for an Interest as a result of a misrepresentation or if such Limited Partner's continued participation in the Partnership would, in the reasonable judgment of the General Partner, put the Partnership or the other Limited Partners at a material tax, legal, regulatory, or pecuniary disadvantage including, by way of example and not limitation: (i) causing the Partnership to be required to be registered or regulated under the Company Act; (ii) causing the Partnership to be an association or "publicly traded partnership" taxable as a corporation for U.S. federal income tax purposes; (iii) causing the assets of the Partnership to be deemed to be "plan assets" for purposes of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") or Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"); (iv) causing the Partnership to be registered under the Securities Exchange Act of 1934 (the "Exchange Act"), or the offering of its Interests registered under the Securities Act; (v) causing the General Partner to be required to be registered with the Commodity

Futures Trading Commission ("CFTC") as a "commodity pool operator" and become a member of the National Futures Association ("NFA") (if the General Partner is not then so registered and/or such a member); (vi) causing a violation under any law or any contractual provision to which the Partnership or its property or the General Partner is subject; or (vii) causing the Partnership to be in violation of (in the reasonable judgment of the General Partner), to potentially violate or otherwise cause concerns under, the anti-money laundering program and related responsibilities of the Partnership or the General Partner. In addition to the foregoing, the General Partner may compel a Limited Partner to withdraw entirely from the Partnership, or to withdraw any portion of such Limited Partner's Capital Account, at any time upon 90 days' prior written notice if such Limited Partner's continued participation in the Partnership would, in the reasonable judgment of the General Partner, put the Partnership or the other Limited Partners at a material administrative disadvantage; provided that the General Partner may not so terminate the participation of a Limited Partner during the pendency of a Removal Petition as defined in the Partnership Agreement.

#### PAYMENT OF CAPITAL WITHDRAWALS

Withdrawal proceeds (based on unaudited data) will generally be paid within 30 days of the relevant Withdrawal Date. However, upon a complete withdrawal of a Limited Partner, the General Partner will, after applying all charges and credits properly allocable to such Limited Partner's Capital Account, cause the Partnership to distribute to such Limited Partner 90% of the withdrawal proceeds within 30 days of the relevant Withdrawal Date, and the balance (based on unaudited data), without interest, will be paid within 60 days of such Withdrawal Date. Any amount subject to the foregoing "hold-back" will not remain subject to the profit/loss of the Partnership following the Withdrawal Date. The General Partner may waive the foregoing hold-back provisions in its sole and absolute discretion and permit the withdrawal of any Limited Partner to be made on the basis of estimated Net Asset Values, generally within 30 days of the effective date of withdrawal. Under certain circumstances, the Partnership may limit or suspend withdrawals, and/or defer payment of withdrawn amounts to withdrawing Limited Partners.

Generally, no interest will be paid by the Partnership on withdrawn amounts pending distribution to Limited Partners.

#### DISTRIBUTIONS

The General Partner does not anticipate that the Partnership will make any distributions.

#### ASSIGNMENTS

Interests may not be transferred or pledged without the prior written consent of the General Partner and compliance with applicable federal and state securities laws. No transferee or pledgee may become a substitute Limited Partner without the consent of the General Partner.

#### MISCELLANEOUS

#### TAXATION

Each of the Partnership and the Master Fund intends to be classified as a partnership and not as an association taxable as a corporation for U.S. federal income tax purposes. Accordingly, neither the Partnership nor the Master Fund should be subject to U.S. federal income tax, and each Limited Partner will be required to report on its own annual tax return such Limited Partner's allocable share of the Partnership's taxable income or loss. See "*Certain U.S. Federal Income Tax Considerations*".

Because the Partnership does not intend to make distributions, to the extent that the Partnership is successful in its investment strategy, Limited Partners should expect to incur tax liabilities from an investment in the Partnership that will not be covered

	by cash distributions with which to pay such liabilities.
LIMITED LIABILITY	Limited Partners invest in the Partnership with limited liability and cannot lose more than the amount of their investment and their share of the Partnership's profits.
REPORTS	Limited Partners will receive monthly account statements, audited annual financial statements, and necessary federal tax information for the Partnership.
FISCAL YEAR END	December 31.
BUSINESS DAY	A day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in the Cayman Islands and New York City and/or such other day as the General Partner may from time to time determine.
AUDITORS	Deloitte & Touche.
LEGAL COUNSEL TO THE GENERAL PARTNER	<p>Sidley Austin LLP New York, New York served as legal counsel to the General Partner in connection with the organization of the Partnership and the preparation of this Memorandum. Sidley Austin LLP may continue to serve in such capacity in the future, but has not assumed any obligation to update this Memorandum. Sidley Austin LLP may also advise the General Partner in matters relating to the operation of the Partnership — including, without limitation, on matters relating to its fiduciary obligations to Limited Partners — on an ongoing basis. Sidley Austin LLP does not represent and has not represented the prospective investors or the Partnership in the course of the organization of the Partnership, the negotiation of its business terms, the offering of the Interests or in respect of its ongoing operations. Prospective investors must recognize that, as they have had no representation in the organization process, the terms of the Partnership relating to themselves and the Interests have not been negotiated at arm's length.</p> <p>Sidley Austin LLP's engagement by the General Partner in respect of the Partnership is limited to the specific matters as to which it is consulted by the General Partner and, therefore, there may exist facts or circumstances which could have a bearing on the Partnership's (or the General Partner's) financial condition or operations with respect to which Sidley Austin LLP has not been consulted and for which Sidley Austin LLP expressly disclaims any responsibility.</p>
LEGAL COUNSEL TO THE MASTER FUND	Walkers, Walker House, Box 265, George Town, Cayman Islands, serves as Cayman Islands counsel to the Master Fund.

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*AN INVESTMENT IN THE PARTNERSHIP IS SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK. NO SUBSCRIBER SHOULD HAVE ANY NEED FOR ANY MONIES INVESTED IN THE PARTNERSHIP TO MEET CURRENT NEEDS OR ONGOING FINANCIAL REQUIREMENTS. EACH PROSPECTIVE INVESTOR MUST CAREFULLY ASSESS THE RISKS OF SECURITIES TRADING AND, PARTICULARLY, TRADING AND INVESTING IN COLLATERALIZED DEBT OBLIGATIONS BEFORE DETERMINING WHETHER TO SUBSCRIBE FOR A LIMITED PARTNERSHIP INTEREST.*

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## THE INVESTMENT PROGRAM

### Investment Objective

The Partnership's primary objective is to seek high current income and capital appreciation relative to LIBOR. The Partnership does not currently trade directly but rather invests synthetically in the Master Fund generally on a 2.75 times leveraged basis through the Leverage Instrument. The Master Fund intends to achieve its investment objective primarily through leveraged investments in investment-grade structured finance securities, although the Master Fund intends to seek investment opportunities beyond the structured finance asset category. The Master Fund will make investments in CDOs and other structured finance assets, including ABSs, synthetic ABSs, MBSs, and global structured asset securitizations. The Master Fund will make investments (or otherwise take on risk) in both the traditional "cash" market and the derivatives market. In addition, the Master Fund may invest in various derivatives, including primarily credit-default swaps, but also options, swaps, swaptions, futures and forward contracts (both listed and over-the-counter) on various financial instruments, equity securities and currencies.

### Structure of the Partnership

The Partnership will invest substantially all of its assets synthetically through the Leverage Instrument in a "master-feeder" structure, conducting most if not all of its investment and trading activities indirectly through an investment in the Master Fund, a company formed to conduct trading activities on behalf of the Partnership and other entities managed by BSAM or its affiliates. The purpose of the Master Fund is to achieve trading and administrative efficiencies. The Partnership may, however, invest a portion of its assets directly rather than investing through the Master Fund. Master Fund positions may be financed by various sources of funding, including bank lines and the repurchase markets. As the Partnership is expected to have up to 2.75 times leveraged exposure to the Master Fund, and the Master Fund's positions in turn are expected to be highly leveraged, the Partnership's Net Asset Value may increase or decrease at a greater rate than if leverage were not used.

While the Master Fund's investment objective may be achieved through direct, leveraged investments in investment-grade structured finance securities and other structured finance assets, the Master Fund intends, as part of its strategy, to gain exposure, on a non-recourse, leveraged basis, to investment-grade structured finance securities by means of the Master Fund's purchase of the equity securities and other securities issued by structured vehicles (such as CDOs) that invest, on a leveraged or unleveraged basis, primarily in investment-grade structured finance securities (such as CDOs). Each such structured vehicle is referred to herein as a "Repackaging Vehicle". The Investment Manager or an affiliate thereof may, but need not, be the collateral manager or similar service provider with respect to a Repackaging Vehicle (each a "Repackaging Vehicle Manager").

### Investment Strategy

Structured finance securities are the securities of special purpose vehicles ("SPVs") that purchase diversified pools of assets. The assets held by the SPV are financed through the issuance of several classes, or tranches, of securities each of which has a specific right to the interest and principal payments from the underlying diversified pool of assets held by the SPV. Each of the tranches issued by an SPV has a credit quality rating that is determined by the tranche's repayment priority to the interest and principal payments generated by the underlying assets. The Master Fund will focus on the senior securities issued by SPVs that are rated from AAA to AA- by Standard & Poor's, from Aaa to Aa3 by Moody's or from AAA to AA- by Fitch.

The Investment Manager will use its structuring and research experience to identify structured finance securities with fundamentally strong credit risk profiles that are priced attractively. A significant portion of the investment return of the Master Fund is expected to be current income resulting from a positive yield spread between the investment income of the investments (together with any corresponding hedging instruments) of the Master Fund and the associated borrowing costs. Additionally, to the extent that the Master Fund's assets increase in value, the Master Fund may realize capital appreciation.

As part of the Master Fund's investment strategy, the Investment Manager intends, subject to market conditions and other relevant factors, to invest up to 40% of the net asset value of the Master Fund, as measured at the time any

investment is made, in equity tranches (or equivalent securities) of Repackaging Vehicles (the “Repackaging Vehicle Junior Interests”), subject to the portfolio guidelines imposed by the Leverage Instrument, which may restrict such holding to significantly less than 40%. The returns of Repackaging Vehicle Junior Interests will be generated primarily from the cash flow performance of the investment-grade ABSs, investment-grade CDOs and other investment-grade assets selected by the Investment Manager in its capacity as collateral manager of the Repackaging Vehicles (in such capacity, the “Repackaging Vehicle Collateral Manager”). The ability of a Repackaging Vehicle Collateral Manager to manage the assets of each Repackaging Vehicle will be restricted by the guidelines set forth in the operative documents relating to such Repackaging Vehicle. Repackaging Vehicle Junior Interests may be held directly or indirectly through an investment in a structured product that invests all or a substantial portion of its assets in Repackaging Vehicle Junior Interests. Such an investment will be considered to be a direct investment in the Repackaging Vehicle Junior Interests for the purpose of determining the portfolio limitations applicable to Repackaging Vehicle Junior Interests.

The equity securities issued by Repackaging Vehicles will generally not be secured or rated investment grade and will be subordinated to all other securities of the relevant Repackaging Vehicle and all other amounts due under the priority of payments set forth in the operative documents of such Repackaging Vehicle.

The Master Fund may also invest in other securities issued by a Repackaging Vehicle, including rated and secured securities, including investment-grade debt securities (the “Repackaging Vehicle Notes”, together with the “Repackaging Vehicle Junior Interests”, the “Repackaging Vehicle Securities”). In addition, all or a substantial portion of the Repackaging Vehicle Securities held by the Master Fund may be held indirectly through an investment in a secondary Repackaging Vehicle, Rampart Financial Ltd. (“Rampart”), a company incorporated under the laws of the Cayman Islands, for which BSAM and Stone Tower Debt Advisors LLC together act as investment managers. The shares of Rampart may be (but are not required to be) registered under the Securities Act and offered to, and traded by, the public. There can be no assurance that such shares will in fact be registered under the Securities Act, or if so registered, when such registration will be effective. Prospective investors should not invest in the Partnership in anticipation of any such registration of the shares.

The operative documents of Rampart and the offering documents of any other Repackaging Vehicle in which the Master Fund invests, and any operative documents referred to therein will, subject to any confidentiality requirements imposed on the Master Fund, be sent to Limited Partners and prospective investors without charge upon request to the General Partner at Bear Stearns Asset Management Inc., 383 Madison Avenue, New York, New York 10179, Attention: Alternative Fund Services; telephone: 212-272-1630; facsimile: 917-849-3018.

The Master Fund will also seek to generate returns by engaging in structured finance capital structure arbitrage transactions. In these transactions the Master Fund will purchase structured finance securities that the Investment Manager believes can be restructured in a more efficient manner. The Master Fund will realize a gain if the restructured securities are then sold or valued at market prices above the aggregate level of the securities prior to the restructuring.

The Investment Manager carries out the Master Fund’s investment process and risk control procedures by analyzing the potential interest and principal flows on the CDO or structured finance securities owned by the Master Fund. Various models and valuation tools are used to quantify the likelihood of future payments on both the underlying assets held by a CDO or structured finance vehicle as well as securities issued by the CDO or structured finance vehicle. These tools are derived from internally constructed, broker-dealer and third-party vendor analytical systems. The Investment Manager also utilizes default modeling and credit-adjusted spread pricing applications to assess relative value opportunities in the structured finance market.

The returns of the Master Fund are intended to be generated primarily from the cash flow performance of the securities selected by the Investment Manager. The performance of the Master Fund will be related to trends in the credit markets, but the Investment Manager believes the Master Fund will not be highly correlated to short-term equity market returns. Additionally, the Master Fund intends to construct a portfolio that minimizes correlation with short term movements in interest rates. To accomplish this goal the Master Fund will invest primarily in floating-rate assets or fixed-rate assets with an interest rate hedge. It is the intention of the Investment Manager to hedge the exposure of any assets to interest rate changes with interest rate swaps or by selling treasuries short. The Investment

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Manager will attempt to keep the effective interest rate duration of the Master Fund's investment portfolio close to zero.

The primary focus of the Investment Manager will be to assess the credit risk inherent in every potential investment and to monitor the credit risk of the investments held by the Master Fund. The objective of the analysis is to determine how the frequency and severity of defaults of the underlying assets of each of the structured finance securities will impact the interest and principal payments on those securities. Because each of the investments held by the Master Fund is essentially a construct of a large and diversified collection of individual assets, it is possible to monitor the performance of the underlying assets in a quantitative way. Unlike investments in corporate fixed-income securities where the credit performance of the issue is binary (the bond is either current in its obligations to make interest and principal payments or it is in default) the credit performance of a structured finance security is directly related to the observable cash flow characteristics of the underlying assets. In addition, it is anticipated that substantially all of the structured finance securities purchased by the Master Fund will have credit enhancement mechanisms which, when the underlying pool of assets experiences credit degradation beyond objectively defined levels, cause cash flow to be diverted away from the more junior structured finance securities and towards the securities held by the Master Fund.

The Master Fund may also enter into other transactions where the Master Fund is paid to take on risks the managers believe to be negatively correlated with the principal credit risk inherent in the Master Fund's principal investments. These investments are not hedges in the strict sense but the managers believe the risk/reward characteristics of these investments serve to decrease the overall volatility of the Master Fund.

*BSAM also operates Bear Stearns High-Grade Structured Credit Strategies Master Fund, Limited (the "High-Grade Fund"), an investment vehicle which has an investment strategy similar to that of the Master Fund, but is not subject to the same investment restrictions or considerations relating to the additional leverage provided under the Leverage Instrument. Accordingly, the investment portfolio and strategies of the Master Fund may differ substantially from those of the High-Grade Fund, and past performance of the High-Grade Fund or any of its feeder funds is not necessarily indicative of the future performance of the Master Fund or the Partnership.*

#### **Leverage Instrument**

THIS DESCRIPTION IS PROVIDED FOR ILLUSTRATIVE PURPOSES ONLY AND THE ACTUAL TERMS, CONDITIONS, AND PERFORMANCE OF THE LEVERAGE INSTRUMENT MAY VARY. IN THE EVENT THERE IS ANY INCONSISTENCY BETWEEN THE DESCRIPTION CONTAINED HEREIN AND THE LEVERAGE INSTRUMENT'S ACTUAL TERMS AND CONDITIONS AS EVIDENCED BY ONE OR MORE EXECUTED DOCUMENTS, THEN THE ACTUAL TERMS AND CONDITIONS OF SUCH TRANSACTION DOCUMENTS SHALL PREVAIL.

The Partnership will enter into an over-the-counter, total return swap (the "Leverage Instrument") with Barclays Bank PLC as counterparty (the "Leverage Instrument Counterparty"), which references the Master Fund. (See "The Leverage Instrument Counterparty" below.) The Partnership will pay the Leverage Instrument Counterparty an amount equal to substantially all of the proceeds from the issuance of the Interests and will receive a return indexed to an investment in the Master Fund with a targeted leverage of 2.75 times the amount invested. The General Partner may in its discretion reduce such leverage. The leverage inherent in the Leverage Instruments will cause a greater volatility of returns than would a direct non-leveraged investment in the Master Fund.

As the amount of leverage increases, the costs and risk of loss also increases and, accordingly, risks associated with the leverage instruments will be increased with respect to the Partnership.

The portfolio leverage provided by the Leverage Instrument is in addition to the leverage employed by the Master Fund in its investment strategy. Limited Partners will therefore be exposed to generally up to 2.75 times the Net Leverage of the Master Fund (*i.e.*, 27.5 times the net asset value of the Master Fund).

The Leverage Instrument provides for an accretion of the notional amount (effectively, a finance charge) equal to the applicable 1-month USD LIBOR plus up to 1.20% per annum, compounding monthly, on the amount of leverage

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provided by the Leverage Instrument Counterparty. The Leverage Instrument is scheduled to terminate 3 years after its effective date, at which time, the Leverage Instrument Counterparty will pay to the Partnership the difference between the value of the Partnership's leveraged synthetic investment in the Master Fund and the notional amount, which initially, is the amount of leverage provided by the Leverage Instrument Counterparty. The Leverage Instrument Counterparty may also terminate the Leverage Instrument following the occurrence of certain Termination Events, as defined and set forth in the Leverage Instrument. The Partnership may terminate the Leverage Instrument at any time upon giving notice to the Leverage Instrument Counterparty, as provided in the Leverage Instrument. However, if the Partnership terminates the Leverage Instrument within 18 months after its effective date it will be subject to an early termination fee.

If the Leverage Instrument is terminated, the General Partner may invest the proceeds received upon termination in a swap or other instrument and with a counterparty that, in the determination of the Investment Manager, would provide the Partnership with economic terms and a risk profile substantially similar to the Leverage Instrument. Following termination of the Leverage Instrument and prior to entering into any such new arrangement, the Partnership may invest its assets directly in the Master Fund on an unleveraged basis.

In accordance with the terms of the Leverage Instrument and in consideration of the credit exposure of the Leverage Interest Counterparty to the Master Fund investment portfolio, to the extent that the Leverage Instrument Counterparty invests in the Master Fund to hedge its obligations under the Leverage Instrument, it will be entitled to more frequent and detailed information reports and more favorable liquidity rights than the Limited Partners have with respect to their Interests. Any such agreement between the Master Fund or the Investment Manager and the Leverage Interest Counterparty will not entitle any other Limited Partner to any more favorable rights with respect to its investment in the Partnership.

In addition, the Leverage Instrument provides that the Leverage Instrument Counterparty may terminate the Leverage Instrument if the Master Fund breaches certain investment guidelines set forth in the Leverage Instrument. The Investment Manager intends to adhere to such guidelines in managing the assets of the Master Fund, thereby limiting its discretion. In certain instances, such adherence may cause the Investment Manager to forego certain investment opportunities that the Investment Manager believes may otherwise benefit the Master Fund.

A copy of the Leverage Instrument, subject to any confidentiality requirements imposed on the Partnership, will be made available to Limited Partners and prospective investors upon request to the General Partner.

#### **Master Fund Leverage and Credit Hedges**

In addition to the leverage employed by the Partnership through the Leverage Instrument, the Master Fund itself will borrow money to enable it to invest in securities whose market value exceeds 100% of the net asset value of the Master Fund. As the Master Fund purchases primarily highly rated investment-grade assets, the Master Fund will be capable of using leverage to invest in securities (excluding Repackaging Vehicle Junior Interests) with an aggregate value of as much as fifteen times the net asset value of the Master Fund. It is the intention of the Investment Manager, however, to limit Net Leverage to ten times the Net Asset Value. "Net Leverage" is defined as the total market value of the Master Fund's investments, excluding the Repackaging Vehicle Junior Interests, less the notional value of the Master Fund's credit default swap hedges, adjusted for the duration of these hedges, divided by the net asset value of the Master Fund, excluding the market value of Repackaging Vehicle Junior Interests. The Master Fund will primarily use repurchase agreements to finance its direct purchases of CDOs and other ABSs, although the Master Fund may use other forms of financing or leverage, including total return swaps and other derivative transactions. The Master Fund may also borrow money to facilitate redemptions or for other liquidity purposes.

It is anticipated that a substantial portion (initially approximately 30%) of the Master Fund's repurchase agreements will be entered into through a deposit agreement with one or more counterparties, pursuant to which the Master Fund will deposit an amount with the relevant counterparty and direct all or a portion of such funds to be invested in securities that are leveraged through the repo market. Dresdner Bank AG London Branch is the sole initial deposit agreement counterparty.

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As mentioned above, the Master Fund will use credit-default swaps to hedge some of its credit exposure. A credit-default swap is a derivative contract where one party (the protection buyer) pays an annual premium to another party (the credit protection seller) in exchange for the right to receive a compensatory payment if a specified credit suffers a default or credit event. Credit default swaps will be used by the Master Fund to hedge credit exposure. A substantial portion of the Master Fund's credit default swap hedges may be general portfolio hedges that do not hedge a specific asset held by the Master Fund.

The Master Fund will also use other instruments and strategies to hedge potential market volatility. These instruments and strategies include options, futures and short positions on various financial indices or individual securities where the managers believe there is an opportunity to limit volatility in a negative market scenario.

#### **Leverage of the Repackaging Vehicle Junior Interests**

In addition to the leverage employed by the Master Fund in its direct investments in highly rated investment-grade assets, as measured by Net Leverage, the Master Fund will effectively be using leverage by purchasing Repackaging Vehicle Junior Interests to gain exposure to the highly rated investment-grade assets of the Repackaging Vehicle.

Traditional leverage used in repurchase agreement financing is sensitive to the market price volatility of the assets being financed. If the market price of the assets being financed deteriorates, the Master Fund may be required to post additional margin or, if sufficient margin is not available, may be required to sell a financed position. This form of financing is typically called "mark-to-market recourse financing" because the repurchase counterparty uses the mark-to-market price of the financed assets to determine whether to call for additional margin. Under the arrangements for such financing, the repurchase counterparty has recourse to the assets of the Master Fund used to secure the financing. The leverage inherent in the Repackaging Vehicle Junior Interests, by contrast, may be characterized as "non-mark-to-market" and "non-recourse", as the Repackaging Vehicle does not have the right, upon the deterioration of the market price of its assets, to require additional capital from, and generally has no recourse to the assets of, the holders of Repackaging Vehicle Junior Interests. The initial Repackaging Vehicle Junior Interest capital contribution required by a Repackaging Vehicle is determined by, among other factors, the ratings quality and diversity of the assets held by the Repackaging Vehicle. If the total par amount of assets purchased by a Repackaging Vehicle were divided by the initial capital contribution of the Repackaging Vehicle Junior Interests, the result would be a leverage ratio of approximately 60-to-1. This mathematical ratio is substantially greater than both the gross leverage and Net Leverage ratios targeted by the Master Fund for the portion of its investment portfolio that does not include the Repackaging Vehicle Junior Assets. The Investment Manager anticipates, however, that the risk-adjusted return of Repackaging Vehicle Junior Interests will generally exceed the risk-adjusted return on assets financed under repurchase agreements or other forms of financing.

#### **Investment Restrictions; Permitted Investments**

Pursuant to the terms of the Leverage Instrument, the Leverage Instrument Counterparty has the right to terminate the Leverage Instrument under certain conditions, including the breach by the Master Fund of investment guidelines set forth in the Leverage Instrument. The Investment Manager generally intends therefore (but is in no way obligated) to comply with such limitations, including limitations on the Master Fund's exposure to Repackaging Vehicle Junior Interests, limitations on the securities that the Master Fund may hold that are rated below AA by Standard & Poor's or Fitch or Aa2 by Moody's and limitations on the Master Fund's exposure to certain categories of structured finance securities, including CDO Securities, ABS Securities and residential mortgage-backed securities. A copy of the Leverage Instrument, including such limitations, will be made available to Limited Partners and prospective investors upon request to the General Partner, subject to any confidentiality requirements imposed on the Partnership.

Outside of the portfolio guidelines imposed by the Leverage Instrument, the Master Fund intends to concentrate its investments in the investment-grade classes of structured finance securities. For all investments (excluding Repackaging Vehicle Junior Interests) the Master Fund has targeted a portfolio rating composition of approximately 90% structured finance securities rated from AAA to AA- by Standard & Poor's, from Aaa to Aa2 by Moody's or from AAA to AA- by Fitch. The 10% balance of the portfolio (excluding Repackaging Vehicle Junior Interests) may be rated below such ratings. The above percentages are target concentrations only. The Master Fund will not be required to sell any security that is downgraded subsequent to its purchase by the Master Fund. It is anticipated



that no more than 30% of the Master Fund's Net Asset Value will be invested in Repackaging Vehicle Junior Interests at the time any Repackaging Vehicle Junior Interest investment is made. The Repackaging Vehicle Junior Interests will generally not be rated. The Investment Manager intends, however, to adhere to the portfolio guidelines set forth in the Leverage Instrument in managing the assets of the Master Fund, thereby limiting its discretion. In certain instances, such adherence may cause the Investment Manager to forego certain investment opportunities that the Investment Manager believes may otherwise benefit the Master Fund.

The Master Fund's Memorandum and Articles of Association generally permit investments in any and all securities, including but not limited to stocks, bonds, warrants, notes, debentures (whether subordinated, convertible or otherwise), money market funds, commercial paper, certificates of deposit, obligations of the United States or any state thereof or of foreign governments (or any instrumentality thereof), bank debt, partnership interests, whether publicly offered or pursuant to private placements, as well as futures, swaps, forward and option contracts and other derivatives, whether or not traded or on an organized exchange.

*The descriptions contained herein of specific investment strategies and methods that may be engaged in by the Master Fund should not be understood as in any way limiting the Investment Manager's investment activities. The Master Fund may engage in investment strategies and methods not described herein that the Investment Manager considers appropriate, subject to the portfolio guidelines imposed by the Leverage Instrument; provided, however, that the Limited Partners will receive advance notice of any material change in the Master Fund's overall strategy or approach.*

*The Master Fund's investment program is speculative and entails substantial risks. There can be no assurance that the investment objectives of the Master Fund will be achieved or that the Partnership will not incur substantial losses.*

#### **CERTAIN RISK FACTORS**

*There is a high degree of risk associated with an investment in the Partnership and an investment in the Partnership should only be made after consultation with independent qualified sources of investment and tax advice. References to the Partnership or the Partnership's investments and portfolio in the following summary of risks refer to the combined risks relating to the investments and portfolio of the Partnership, the Master Fund and the Other Feeder Funds and references to the General Partner and its investment strategy and operations refer to Bear Stearns Asset Management Inc. as both General Partner of the Partnership and investment manager of the Master Fund, and its roles in connection with each respectively, unless the context suggests otherwise. Among the risks involved with an investment in the Partnership are the following:*

##### **Potential Loss of Investment**

No guarantee or representation is made that the Partnership's investment program will be successful. In particular, the past results of the General Partner are not necessarily indicative of the future performance of the Partnership. As is true of any investment, there is a risk that an investment in the Partnership will be lost entirely or in part. The Partnership is not a complete investment program and should represent only a portion of an investor's portfolio management strategy.

##### **Leverage**

The Leverage Instrument provides the Partnership generally a 2.5 to 2.75 times leveraged exposure to the Master Fund. During periods of volatile market changes and/or reduced liquidity at in the Master Fund's investment portfolio, such leverage may temporarily exceed 2.75. The Master Fund itself invests on a highly leveraged basis. The more leverage is employed, the more likely a substantial change will occur in the value of the Partnership. Accordingly, any event which adversely affects the value of an investment would be magnified to the extent leverage is utilized. The cumulative effect of the use of leverage with respect to any investments in a market that moves adversely to such investments could result in a substantial loss which would be greater than if the investments were not leveraged. In addition, trading on margin will result in interest charges to the Master Fund.

NOT TO BE DISTRIBUTED TO CLIENTS

The Master Fund will primarily be using repurchase agreements to finance its direct purchases of structured finance securities (other than Repackaging Vehicle Junior Interests), although the Master Fund may use other forms of financing or leverage, including total return swaps, other derivative transactions and credit facilities. Repurchase agreements and total return swap financing entail significant financial risks, including the potential risk of loss of initial margin and additional amounts that may be required to be posted with the counterparty to the repurchase agreement or total return swap, as applicable, in connection with a particular transaction.

If the market value of securities purchased by the counterparty under a repurchase agreement (the “Purchased Securities”) declines, the Master Fund will be required to deliver additional margin. If additional margin is not properly posted, the counterparty to the repurchase agreement may declare that an event of default has occurred and sell all or a portion of the securities that are subject to the repurchase transaction. In addition, the Master Fund will be responsible for any shortfall after such sale.

The Master Fund will be required to repurchase the Purchased Securities on a specified repurchase date. If the Master Fund fails to repurchase the Purchased Securities, the repurchase counterparty may declare an event of default under the repurchase agreement and sell the Purchased Securities. As a result, the Master Fund may suffer the loss of some or all of its investment. Repurchase agreements generally do not provide for a right to early termination. Therefore, if a repurchase agreement counterparty agrees to an early termination of a repurchase transaction, the Master Fund may be required to pay a transaction breakage fee and suffer a substantial loss. The repurchase agreements contemplated by the Master Fund will be for terms of one month, three months or six months. The repurchase agreement counterparty is under no obligation to enter into new repurchase agreements with the Master Fund. The inability of the Master Fund to roll a repurchase agreement would require the Master Fund to sell securities which may lead to a substantial loss.

Under a total return swap, the Master Fund will be obligated to make certain periodic payments in exchange for the total return on a referenced asset, including coupons, interest and the gain or loss on such asset over the term of the swap. The Master Fund may be required to maintain collateral with the total return swap counterparty. If the Master Fund fails to fulfill its payment obligations or fails to post any required collateral under a total return swap, the total return swap counterparty may declare an event of default and, as a result, the Master Fund may be required to pay swap breakage fees, suffer the loss of the amounts paid to the counterparty and forego the receipt from the counterparty of further total return swap payments. For additional risks relating to total return swaps, see “— Other Investment Related Risks — OTC Derivatives”.

The Master Fund has a targeted Net Leverage of 10 to 1 for the portion of the Master Fund’s investments that are made in investments other than Repackaging Vehicle Junior Interest investments. “Net Leverage” is defined as the total market value of the Master Fund’s investments, excluding Repackaging Vehicle Junior Interests, less the notional value of the Master Fund’s credit default swap hedges, adjusted for the duration of these hedges, divided by the net asset value of the Master Fund, excluding the market value of Repackaging Vehicle Junior Interests. The gross leverage of the Master Fund (leverage without subtracting the notional value of the credit default swaps) measured in the same manner as Net Leverage, above, will be higher than 10 to 1. To the extent that the credit default swap hedges in the portfolio do not perform as expected, and to the extent that the Master Fund is exposed to additional credit default swap counterparty credit risks, the price volatility of the Master Fund may be substantially more severe than indicated by a Net Leverage ratio of 10 to 1.

In addition to the direct financing by the Master Fund of its investments in CDOs and other assets, the investment in Repackaging Vehicle Junior Interests will expose the Master Fund to the highly leveraged investments in the collateral securing the other Repackaging Vehicle Securities and obligations. Due to the leverage inherent in the Repackaging Vehicle structure, changes in the value of the Repackaging Vehicle Junior Interests could be greater than the changes in the values of the underlying collateral, the assets constituting which are subject to, among other things, credit and liquidity risk. Investors must consider with particular care the risks of leverage in Repackaging Vehicle Junior Interests because, although the use of leverage creates an opportunity for substantial returns for the Master Fund on the Repackaging Vehicle Junior Interests, it increases substantially the likelihood that the Master Fund could lose its entire investment in Repackaging Vehicle Junior Interests if the pool of collateral held by the relevant Repackaging Vehicle is adversely affected by market developments.

### **CDO Investment Related Risks**

The market value of CDOs will generally fluctuate with, among other things, the financial condition of the obligors on the underlying debt obligations or, with respect to Synthetic Securities, of the obligors on or issuers of the Reference Obligations, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. Prospective investors must understand that securities otherwise outside the Master Fund's investment parameters as described in this Memorandum (for example, bank loans, high-yield and mezzanine debt securities) may constitute all or a significant portion of the underlying securities held by a CDO, Synthetic Security or other investment of the Master Fund and that CDOs are therefore subject to risks particular to such securities.

CDOs are subject to credit, liquidity and interest rate risks. In particular, investment-grade CDOs will have greater liquidity risk than investment grade sovereign or corporate bonds. There is no established, liquid secondary market for many of the CDO securities the Master Fund may purchase. The lack of such an established, liquid secondary market may have an adverse effect on the market value of such CDO securities and the Master Fund's ability to sell them. Further, CDOs will be subject to certain transfer restrictions that may further restrict liquidity. Therefore, no assurance can be given that if the Master Fund were to dispose of a particular CDO held by the Master Fund, it could dispose of such investment at the previously prevailing market price.

The performance of CDOs will be adversely affected by macroeconomic factors, including (i) general economic conditions affecting capital markets and participants therein, (ii) the economic downturns and uncertainties affecting economies and capital markets worldwide, (iii) the effects of, and disruptions and uncertainties resulting from, the terrorist attacks of September 11, 2001 and the actual and potential military responses thereto and other consequences thereof and similar events, (iv) recent concern about financial performance, accounting and other issues relating to various publicly traded companies and (v) recent and proposed changes in accounting and reporting standards and bankruptcy legislation.

As used herein, the following terms have the following meanings:

"Synthetic Security" is any derivative financial instrument with respect to a debt instrument, whether in the form of a swap transaction, structured bond investment or otherwise purchased or entered into, by the Master Fund with or from a synthetic security counterparty, which investment contains similar probability of default, recovery upon default (or a specific percentage thereof) and expected loss characteristics as those of the related Reference Obligation (without taking account of such considerations as they relate to the synthetic security counterparty), but which will contain a maturity, interest rate and other non-credit characteristics that may be different from the Reference Obligation to which the credit risk of the Synthetic Security relates.

"Reference Obligation" means a debt security or other obligation upon which a Synthetic Security is based.

"Reference Obligor" means the obligor on a Reference Obligation.

**Synthetic Securities.** In addition to the credit risks associated with holding senior bank loans and high-yield debt securities, with respect to Synthetic Securities, the Master Fund will usually have a contractual relationship only with the counterparty of such Synthetic Security, and not with the Reference Obligor of the Reference Obligation. The Master Fund generally will have no right to directly enforce compliance by the Reference Obligor with the terms of the Reference Obligation nor will it have any rights of setoff against the Reference Obligor or rights with respect to the Reference Obligation. The Master Fund will not directly benefit from the collateral supporting the Reference Obligation and will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation. In addition, in the event of the insolvency of the counterparty, the Master Fund will be treated as a general creditor of such counterparty, and will not have any claim with respect to the Reference Obligation. Consequently, the Master Fund will be subject to the credit risk of the counterparty as well as that of the Reference Obligor. As a result, concentrations of Synthetic Securities in any one counterparty subject the Securities to an additional degree of risk with respect to defaults by such counterparty as well as by the Reference Obligor.

NOT TO BE DISTRIBUTED TO CLIENTS

**Structured Finance Securities.** The Master Fund may invest in trust certificates or similar securities of the type generally considered to be “repackaged securities”. Structured Finance Securities may present risks similar to those of the other types of CDOs in which the Master Fund may invest and, in fact, such risks may be of greater significance in the case of Structured Finance Securities. Moreover, investing in Structured Finance Securities may entail a variety of unique risks. Among other risks, Structured Finance Securities may be subject to prepayment risks, credit risk, liquidity risk, market risk, structural risk, legal risk and interest rate risk (which may depend upon any associated interest rate hedging agreement providing for the exchange of interest accruing on the security being repackaged into interest stated to be payable on the trust certificate or similar securities). In addition, the performance of a Structured Finance Security will be affected by a variety of factors, including the level and timing of payments and recoveries on, the characteristics and the adequacy of, and the ability to realize upon, any related collateral.

**Insolvency of Issuers of CDOs.** If a court in a lawsuit brought by an unpaid creditor or representative of creditors of a U.S. issuer of a CDO, such as a trustee in bankruptcy, were to find that the issuer did not receive fair consideration or reasonably equivalent value for incurring the indebtedness constituting the CDO and, after giving effect to such indebtedness, the issuer (i) was insolvent, (ii) was engaged in a business for which the remaining assets of such issuer constituted unreasonably small capital or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they matured, such court could determine to invalidate, in whole or in part, such indebtedness as a fraudulent conveyance, to subordinate such indebtedness to existing or future creditors of the issuer or to recover amounts previously paid by the issuer in satisfaction of such indebtedness. The measure of insolvency for this purpose varies. Generally, an issuer would be considered insolvent at a particular time if the sum of its debts was then greater than all of its property at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities on its existing debts as they became absolute and matured. There can be no assurance as to what standard a court would apply in order to determine whether the issuer was insolvent after giving effect to the incurrence of the indebtedness constituting the CDO or that, regardless of the method of valuation, a court would not determine that the issuer was insolvent upon giving effect to such incurrence. In addition, in the event of the insolvency of an issuer of a CDO, payments made on such CDO could be subject to avoidance as a preference if made within a certain period of time (which may be as long as one year) before insolvency.

In general, if payments on a CDO are voidable, whether as fraudulent conveyances or preferences, such payments can be recaptured.

The preceding description applies only to issuers of CDOs organized in the United States. Insolvency considerations will differ depending on the country in which each issuer is located or domiciled and may differ depending on whether the issuer is a non-sovereign or a sovereign entity.

**Lender Liability Considerations; Equitable Subordination.** In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lenders or bondholders on the basis of various evolving legal theories (commonly referred to as “lender liability”). Generally, lender liability is founded upon the premise that an institutional lender or bondholder has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or issuer or has assumed a degree of control over the borrower or issuer resulting in the creation of a fiduciary duty owed to the borrower or issuer or its other creditors or stockholders.

In addition, under common law principles that in some cases form the basis for lender liability claims, if a lender or bondholder (a) intentionally takes an action that results in the undercapitalization of an obligor to the detriment of other creditors of such obligor, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (d) uses its influence as a lender or bondholder to dominate or control an obligor to the detriment of other creditors of such obligor, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors, which remedial action is called “equitable subordination”. Because of the nature of CDOs, the Master Fund may be subject to claims from creditors of an obligor that debt obligations issued by such obligor that are held by the Master Fund should be equitably subordinated.

The preceding discussion is based upon principles of U.S. federal and state laws. Insofar as debt obligations issued by non-U.S. issuers are concerned, the laws of certain foreign jurisdictions may impose liability upon lenders or

bondholders under factual circumstances similar to those described above, with consequences that may or may not be analogous to those described above under U.S. federal and state laws.

***Ineffectiveness of Credit Hedges.*** The Master Fund may use credit default swaps to hedge a portion of the credit risk in the portfolio. The credit default swaps will generally not hedge a specific position but will hedge exposure to a group of credits that the Investment Manager believes to reflect the credit markets in general. It is possible these credit hedges will not be correlated with the portfolio as intended which will lead to a greater decline in the portfolio's value than that anticipated by the Investment Manager.

#### **Risks Related to an Investment in Repackaging Vehicle Junior Interests**

The Repackaging Vehicle Junior Interests will represent equity interests in the relevant Repackaging Vehicle only and are not secured by any assets of such Repackaging Vehicle. Repackaging Vehicle Junior Interests will be subordinated to all other securities of the Repackaging Vehicle and all other amounts due under the priority of payments set forth in the operative documents of such Repackaging Vehicle. As such, the greatest risk of loss relating to defaults in the collateral portfolio of the Repackaging Vehicle is borne by the Repackaging Vehicle Junior Interests. The Master Fund, therefore, as holder of the Repackaging Vehicle Junior Interests, will rank behind all of the creditors, whether secured or unsecured and known or unknown, of the Repackaging Vehicle.

Each Repackaging Vehicle will be highly leveraged. The use of leverage generally magnifies the Repackaging Vehicle's risk of loss, particularly for the Repackaging Vehicle Junior Interests.

#### **Other Investment Related Risks**

***Broad Discretion of Investment Manager; Potential Lack of Diversification.*** There are no restrictions on the investment discretion of the Investment Manager except for those described under "The Investment Program" above. Accordingly, the Investment Manager is not restricted from investing a large portion of the assets of the Master Fund in any one sector or investment. However, the Leverage Instrument provides that the Leverage Instrument Counterparty may terminate the Leverage Instrument if the Master Fund breaches certain investment guidelines set forth in the Leverage Instrument. The Investment Manager intends to adhere to such guidelines in managing the assets of the Master Fund, thereby limiting its discretion. In certain instances, such adherence may cause the Investment Manager to forego certain investment opportunities that the Investment Manager believes may otherwise benefit the Master Fund.

***Evolving and New Investment Strategies.*** The Investment Manager's strategies and trading techniques are continually evolving. The Investment Manager is not restricted from using the Master Fund's capital to develop new strategies, even if the Investment Manager has limited experience in the type of strategy or in the markets or instruments involved. The strategies developed by the Investment Manager may not be successful and the resources devoted to the implementation of new strategies may diminish the effectiveness of the Investment Manager's implementation of the Investment Manager's established strategies.

***Lower-Rated and Unrated Securities.*** While the primary focus of the Master Fund will be on highly-rated debt securities (AA- or higher), up to 10% of the investment portfolio (excluding Repackaging Vehicle Junior Interests) may be invested in lower-rated investment grade, below investment grade or unrated securities. As the Master Fund's portfolio is leveraged, such holdings may be equal to a substantial amount of the Master Fund's Net Asset Value. In fact, if the Master Fund employs Net Leverage of ten-times its Net Asset Value, the value of such securities may equal up to 100% of investors' capital. A substantial portion of the Limited Partners' investment may therefore be exposed to the credit risks and potentially greater volatility inherent in such securities.

***Directional Trading.*** Certain of the positions taken by the Master Fund are designed to profit from forecasting absolute price movements in a particular instrument. Predicting future prices is inherently uncertain and the losses incurred, if the market moves against a position, will often not be hedged. The speculative aspect of attempting to predict absolute price movements is generally perceived to exceed that involved in attempting to predict relative price fluctuations.

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**Hybrid and Other Strategies.** Many of the strategies executed by the Investment Manager combine elements of more than one general strategy type. Often, in the course of implementing a particular strategy an opportunistic trade representing a different trading approach will be made. For example, in seeking to exploit a relatively mispriced pair of assets, the Investment Manager may conclude that an asset is sufficiently over- or underpriced to merit taking an outright directional position.

The Investment Manager's approach combines a range of different trading techniques, implementing different strategies in different markets as well as combining different strategies, in the same or related markets.

The Investment Manager will continually develop new, and adapt and refine existing, strategies. There is no material limitation on the strategies that the Investment Manager may apply and no assurance as to which types of strategies may be applied at any one time.

**Equities.** Equity securities in which the Partnership invests may involve substantial risks and may be subject to wide and sudden fluctuations in market value, with a resulting fluctuation in the amount of profits and losses.

**Short Sales.** The Partnership will enter into transactions, known as "short sales", in which it sells a security it does not own in anticipation of a decline in the market value of the security. Losses from short sales are potentially unlimited. In particular, a tender offer or similar transaction in respect of a company whose securities the Partnership has sold short could cause the value of such securities to rise dramatically, resulting in substantial losses to the Partnership. Brokers may also require the Partnership to "cover" a short position at an inopportune time.

**Fixed-Income Investments.** The value of the fixed-income securities in which the Partnership may invest will change as the general levels of interest rates fluctuate. When interest rates decline, the value of the Partnership's fixed-income securities can be expected to rise. Conversely, when interest rates rise, the value of such securities can be expected to decline.

**Securities Options.** The Partnership may engage in options trading, which is speculative and involves a high degree of risk. If the Partnership purchases a put or a call option, it may lose the entire premium paid. If the Partnership writes or sells a put option, it could lose the full "strike price" of the referenced security. If the Partnership writes or sells a call option, its loss is potentially unlimited.

**Illiquid Securities.** Securities purchased by the Master Fund may lack a liquid trading market, which may result in the inability of the Master Fund to sell any such security or other investment or to close out a transaction involving a non-U.S. currency or the sale of an option, thereby forcing the Master Fund to incur potentially unlimited losses. In particular, no secondary market generally exists for Repackaging Vehicle Junior Interests and no such secondary market is expected to develop, and it may be difficult for the Master Fund to determine the value of the Repackaging Vehicle Junior Interests at any particular time. The Master Fund may therefore find it difficult or uneconomic to liquidate its investment in the Repackaging Vehicle Junior Interests at any particular time. In certain cases, the Master Fund will not be permitted to transfer majority ownership of Repackaging Vehicle Junior Interests other than to a single transferee without the prior written consent of another party with a controlling interest in the relevant Repackaging Vehicle. Investments in Repackaging Vehicle Junior Interests will be substantially less liquid than the remaining assets in the Master Fund.

While the Investment Manager anticipates that the Master Fund's investment portfolio will be sufficiently diversified and liquid to permit timely withdrawals in most market conditions, each Limited Partner should be aware that the Repackaging Vehicle Junior Interests represent a portion of the Master Fund's assets that may not be liquidated in the event of substantial withdrawals. If all other assets have been liquidated, any remaining Limited Partners may not be able to withdraw their full Interests and will maintain an equity holding in one or more Repackaging Vehicles for an extended period of time through the Partnership's continued holding of such Repackaging Vehicle Junior Interests.

**OTC Derivatives.** The Partnership may enter into swap and other over-the-counter derivative transactions involving or relating to, among other things, interest rates, currencies, or securities, and including total return swaps. A swap transaction or contract for differences is an individually negotiated, non-standardized agreement between two parties

to exchange cash flows (and sometimes principal amounts) measured by different rates or prices with payments generally calculated by reference to a principal (“notional”) amount or quantity. Swap contracts, contracts for differences, and other over-the-counter derivatives are not traded on exchanges; rather banks and dealers act as principals in these markets. As a result, the Partnership will be subject to the risk of the inability or refusal to perform with respect to such contracts on the part of any counterparties with which the Partnership trades. Over-the-counter derivatives may also expose the Partnership to additional liquidity risks. The over-the-counter derivatives market is generally not regulated by any United States or non-U.S. governmental authority. Participants in these markets are not required to make continuous markets in the contracts they trade.

**Repurchase Agreement Counterparty Risk.** It is anticipated that a substantial portion (initially 30%) of the Master Fund’s repurchase agreements will be entered into through a deposit agreement with one or more counterparties (each a “Deposit Agreement Counterparty”), pursuant to which the Master Fund will deposit an amount with the relevant counterparty and direct all or a portion of such funds to be invested in securities that are leveraged through the repo market. Dresdner Bank AG London Branch (“Dresdner”) is the sole initial Deposit Agreement Counterparty. The performance of the Master Fund with respect to securities financed through such a deposit agreement depends on the performance by the deposit agreement counterparty of its payment obligations. If the Deposit Agreement Counterparty were to fail in its obligation to pay under the relevant deposit agreement, the Limited Partners may suffer a loss of capital. If the Deposit Agreement Counterparty has financial difficulties it may be impossible for the Master Fund to recover its deposit and thus Limited Partners may suffer a substantial loss of their investment. In the event of a bankruptcy or insolvency of the Deposit Agreement Counterparty, or any replacement or additional counterparty, the Master Fund could experience (i) a loss of any realized or unrealized profits on the Master Fund’s positions and/or (ii) a partial or total loss of the funds paid as upfront payments for the relevant deposit agreement. The Master Fund may seek to obtain a “security interest” or similar interest in the securities held by the Deposit Agreement Counterparty with respect to the relevant deposit agreement in an effort to achieve priority in respect of the payment obligations of the Deposit Agreement Counterparty in the event of its bankruptcy or insolvency. There can be no assurance, however, that any “security interest” will be achieved, maintained or, in the event of bankruptcy or insolvency, respected. The obligation of the Dresdner to repay any amounts (including the any deposit amounts) under the initial deposit agreement is not secured. The Master Fund, therefore, is likely to have the status of a “general unsecured creditor” in the event that the Dresdner is placed in liquidation rather than in reorganization.

In the relatively recent past there have been a number of high-profile failures of financial institutions due to violations or failures of interest controls, management misfeasance or malfeasance, or exposure to failed clients and counterparties (including hedge funds). Accordingly, prospective investors should understand that the failure of the Deposit Agreement Counterparty could result in a substantial delay in the return to the Master Fund of capital invested in the relevant deposit agreement, or partial or total loss of such capital.

**Suspensions of Trading.** For all securities or commodities traded on public exchanges, each exchange typically has the right to suspend or limit trading in all securities or commodities that it lists. Such a suspension could render it impossible for the Partnership to liquidate its positions and thereby expose it to losses. In addition, there is no guarantee that non-exchange markets will remain liquid enough for the Partnership to close out positions.

**Futures.** Futures markets are highly volatile and a high degree of leverage is typical of a futures trading account. As a result, a relatively small price movement in a futures contract may result in substantial losses to the Partnership. Moreover, most commodity exchanges limit fluctuations in futures contract prices during a single day by regulations referred to as “daily price fluctuation limits” or “daily limits”. Such regulations could prevent the Partnership from promptly liquidating unfavorable positions and thus subject the Partnership to substantial losses.

**Hedging Transactions.** The Partnership may utilize a variety of financial instruments, such as derivatives, options, interest rate swaps, caps and floors, futures, and forward contracts, both for investment purposes and for hedging purposes. Hedging involves special risks including the possible default by the other party to the transaction, illiquidity, and, to the extent the General Partner’s assessment of certain market movements is incorrect, the risk that the use of hedging could result in losses greater than if hedging had not been used. Nonetheless, with respect to certain investment positions, the Partnership may not be sufficiently hedged against market fluctuations, in which case an investment position could result in a loss greater than if the Partnership had been sufficiently hedged with

respect to such position. Moreover, it should be noted that the Partnership's portfolio will always be exposed to certain risks that cannot be hedged, such as credit risk (relating both to particular securities and counterparties).

**International Investing.** Investing outside the United States may involve greater risks than investing in the United States. These risks include: (i) less publicly available information; (ii) varying levels of governmental regulation and supervision; and (iii) the difficulty of enforcing legal rights in a foreign jurisdiction and uncertainties as to the status, interpretation and application of laws. Moreover, foreign companies are generally not subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to United States companies.

Foreign markets may also have different clearance and settlement procedures, and in certain markets there have been times when settlements have failed to keep pace with the volume of securities transactions, making it difficult to conduct such transactions. Delays in settlement could result in periods when assets of the Master Fund are uninvested and no return is earned thereon. The inability of the Master Fund to make intended structured credit security purchases due to settlement problems or the risk of intermediary counterparty failures could cause the Master Fund to miss investment opportunities. The inability to dispose of a structured credit security due to settlement problems could result either in losses to the Master Fund due to subsequent declines in the value of such structured credit security or, if the Master Fund has entered into a contract to sell the security, could result in possible liability to the purchaser. Transaction costs of buying and selling foreign securities, including brokerage, tax and custody costs, also are generally higher than those involved in domestic transactions. Furthermore, foreign financial markets, while generally growing in volume, have, for the most part, substantially less volume than U.S. markets, and securities of many foreign companies are less liquid and their prices more volatile than securities of comparable domestic companies.

The economies of individual non-U.S. countries may also differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, volatility of currency exchange rates, depreciation, capital reinvestment, resources self-sufficiency and balance of payments position.

**Loans of Portfolio Securities.** The Partnership may lend its portfolio securities. By doing so, the Partnership attempts to increase income through the receipt of interest on the loan. In the event of the bankruptcy of the other party to a securities loan, the Partnership could experience delays in recovering the loaned securities. To the extent that the value of the securities the Partnership lent has increased, the Partnership could experience a loss if such securities are not recovered.

**Possible Lack of Diversification.** There are no absolute diversification or concentration constraints on the Partnership. If the Partnership's portfolio becomes relatively concentrated, the value of an investment in the Partnership may be subject to greater volatility and may be more susceptible to any single economic, political, or regulatory occurrence or the fortunes of a single company or industry than would be the case if the Partnership's investments were more diversified.

**Turnover.** The Partnership will not be restricted in effecting transactions by any limitation with regard to its portfolio turnover rate. In light of the Partnership's investment objectives and policies, the Partnership's portfolio turnover rate may be substantial, which would result in significant transaction costs.

#### **Restrictions on Voting Rights of the Partnership as Holder of Repackaging Vehicle Junior Interests**

As the Partnership will be deemed an affiliate of BSAM under the operative documents of the Repackaging Vehicles, the Partnership will not generally be entitled to vote the Repackaging Vehicle Securities held by it in any vote under the collateral management agreement of the Repackaging Vehicle or with respect to any vote or consent on any removal of the Repackaging Vehicle Collateral Manager either for or without cause or any other amendment or modification of the indenture governing the Repackaging Vehicle Securities which increases the rights or decreases the obligations of the Repackaging Vehicle Collateral Manager, for so long as BSAM or any of its affiliates is the Repackaging Vehicle Collateral Manager. However, the Partnership will be entitled to vote the Repackaging Vehicle Securities held by it with respect to all other matters.



### **Certain Risks Related to the General Partner**

**Limited Operating History.** The Partnership and the Master Fund commenced operations on August 1, 2006 and therefore have a limited operating history. Past performance of the Investment Manager in managing assets similar to the Partnership's assets, including the assets of the High-Grade Fund, is not necessarily indicative of future results of the Partnership. There can be no assurance that the Master Fund will generate performance results equivalent to the results generated by the portfolio managers in the past (or avoid losses).

PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE. NO ASSURANCE CAN BE MADE THAT PROFITS WILL BE ACHIEVED OR THAT SUBSTANTIAL LOSSES WILL NOT BE INCURRED.

**Dependence on the General Partner and Key Personnel.** The Partnership depends on the services of the General Partner and its personnel, particularly Ralph Cioffi, Matthew Tannin and Ray McGarrigal, and on relationships among the General Partner and certain key personnel of the General Partner, on the one hand, and members of The Bear Stearns Group, including the Prime Broker, on the other. Loss of the services of any key personnel, including those named herein, could materially adversely impact the Partnership (and result in its liquidation).

**Use of "Manager Marks".** As described herein under "Determination of Net Asset Value", the General Partner is permitted to establish "fair value" of non-exchange listed investments. There can be no assurance that the fair value of such investments will be fully realizable upon their ultimate disposition. Because of the inherent uncertainty of the estimated values of unrealized gains and losses, the Net Asset Value as determined by the Administrator as of the last Business Day of each month (or on such other date as the Administrator may calculate Net Asset Value) may differ significantly from the actual Net Asset Value upon liquidation of such investments, and the differences could be material. The General Partner has a conflict of interest in making any such valuations because the valuations directly effect Net Asset Value and thus the amount of compensation received by the General Partner in respect of its services. Prospective investors should understand that any such General Partner marks are not subject to independent review, except as may be done in connection with the audit at year-end. See "Conflicts of Interest—Asset Valuation".

In addition, for the purposes of the Leverage Instrument, the value of the Leverage Instrument shall be determined by the Leverage Instrument Counterparty as calculation agent under the terms of the Leverage Instrument. The value of the Leverage Instrument will be determined in large part by the net asset value per share of the Master Fund. Generally, the net asset value per share of the Master Fund will be the amount reported by the Administrator to the Master Fund, however, the Leverage Instrument Counterparty may adjust such value based on its commercially reasonable determination under certain circumstances.

**Asset Valuation—Thinly Quoted Securities and Derivatives.** As described under "Allocation of Profit and Loss—Determination of Net Asset Value", the General Partner is permitted to modify valuations in its sole and absolute discretion to reflect fair value. In so doing, the General Partner may instead rely upon another "prudent method of valuation". For example, with respect to an over-the-counter security, the General Partner, if other quotes are not available, may rely upon a single broker-dealer quotation rather than the three-dealer quotes generally required in respect of assets traded on an over-the-counter market for which market quotations are readily available. It is not unusual for broker-dealers affiliated with an issuer of a structured financed security or derivative to provide "bid" and "ask" quotations for such security on a preliminary or "soft" basis. Such preliminary quotations may or may not reflect the "bid" or "ask" prices at which such broker-dealer would be willing to effect actual transactions. Broker-dealers unaffiliated with the issuer of such security or derivative, if providing quotes, may be even less likely to execute transactions (particularly sales transactions by the Partnership) at or near preliminary quotes.

The Partnership's portfolio may include substantial positions (in terms of number of issues and percentage of the Partnership's Net Asset Value) where there is only a single broker-dealer quoting prices, which may be preliminary or "soft", and where such broker-dealer is affiliated with the issuer of such security or derivative or with the Investment Manager. It is anticipated that a number of such securities and derivatives will be executed and maintained with a Bear Stearns Entity and that such positions will be valued in reliance on quotations provided by Bear Stearns Entities in accordance with the provisions set forth under "Allocation of Profit and Loss—Determination of Net Asset Value", which may be at fair value.

In the absence of actual sale transactions, it is difficult for the General Partner to test the reliability of preliminary quotes even when multiple broker-dealers are providing “bid” and “ask” prices. *Prospective investors should be aware that situations involving uncertainties as to the valuation of portfolio securities could dramatically affect the Partnership’s Net Asset Value, particularly where the Partnership seeks to sell positions, if the General Partner’s or its designee’s judgments regarding appropriate valuations should prove incorrect. See “Conflicts of Interest—Asset Valuation” and “Allocation of Profit and Loss—Determination of Net Asset Value”.*

**Competition.** In recent years there has been a marked increase in the number of, and flow of capital into, investment vehicles established in order to implement alternative asset investment strategies, including strategies similar to the strategy to be implemented by the Partnership. While the precise effect cannot be determined, such increase may result in greater competition for investment opportunities, or may result under certain circumstances in increased price volatility or decreased liquidity with respect to certain positions. Prospective investors should understand that the Partnership may compete with other investment vehicles, as well as investment and commercial banking firms, which have substantially greater resources, in terms of financial wherewithal and research staffs, than may be available to the Partnership.

**Other Clients of the General Partner.** The General Partner manages other accounts (as described herein), some of which it may have incentives to favor over the Partnership. The General Partner is not subject to any absolute restrictions on taking new accounts, which could increase the competition for its time and adversely impact the performance of the Partnership.

**Changes in Investment Program.** The General Partner’s investment program is dynamic and changes over time. Thus, the General Partner may not use the same investment program in the future that it used in the past. The specific details of the General Partner’s investment program are proprietary; consequently, Limited Partners will not be able to determine the full details of those methods, or whether those methods are being followed.

**Internal Restrictions on Partnership Investments.** The General Partner and its affiliates are investment advisers to registered investment companies and similar non-U.S. registered entities that may, from time to time, trade in the same markets and securities as the Partnership. Because the General Partner has, and its affiliates and their employees may have, a financial interest in the Partnership, it is possible that the Partnership could be restricted from buying or selling securities that are under consideration for purchase or sale or that are to be bought or sold by one of the registered investment companies or other entities, either until the securities are no longer under consideration for purchase or sale by one of the registered investment companies or other entities, or for a discrete time period, depending on the extant circumstances, after such registered investment company or other entity has completed its transaction, even where doing so would be a benefit to the Partnership. If the Partnership is determined to have been trading inconsistently with its internal restrictions, the Partnership may have to unwind its transaction or, alternatively, disgorge its profit from the transaction. The Partnership will disgorge any such profits from each Capital Account, upon notification from compliance officers of the General Partner, based upon a method deemed prudent and practicable by the compliance officer, which may include *pro rata*, without regard to when a Limited Partner may have entered the Partnership.

#### **Certain Risks Related to Partnership’s Structure**

**Conflicts of Interest.** The Partnership is subject to certain conflicts of interest. See “Conflicts of Interest”.

**Charges to the Partnership.** The Partnership is obligated to pay certain fees and expenses, including an Advisory Fee, brokerage commissions and other costs and expenses associated with the acquisition and disposition of investments, and operating costs and expenses, irrespective of profitability. There can be no assurance that the Partnership will be able to earn sufficient income to offset these charges.

**Leverage Instrument Counterparty Risk.** The performance of the Partnership depends on the performance by the Leverage Instrument Counterparty of its payment obligations under the Leverage Instrument. If the Leverage Instrument Counterparty were to fail in its obligation to pay under the Leverage Instrument, the Limited Partners may suffer a loss of capital. Because substantially all of the Partnership’s assets will be invested in the Leverage Instrument, if the Leverage Instrument Counterparty has financial difficulties it may be impossible for the Partnership to recover its assets and thus Limited Partners may suffer a substantial or total loss of their investment.

Prospective investors should understand that the Partnership has counterparty risk to the Leverage Instrument Counterparty in respect of all or most of its assets. In the event of a bankruptcy or insolvency of the Leverage Instrument Counterparty, or any replacement or additional counterparty, the Partnership could experience (i) a loss of any realized or unrealized profits on the Master Fund's positions and/or (ii) a partial or total loss of the funds paid as upfront payments for the Leverage Instrument. More specifically the Leverage Instrument Counterparty, Barclays Bank PLC, is a public limited company registered in England and Wales, and it is expected that any insolvency proceeding would be administered in the United Kingdom, provided that the Leveraged Instrument Counterparty remains a "UK credit institutions" as defined by The Credit Institutions (Reorganization and Winding Up) Regulations 2004. The Partnership may seek to obtain a "security interest" or similar interest in the Master Fund shares held by the Leverage Instrument Counterparty with respect to the Leverage Instrument, either directly or through an arrangement with the Offshore Enhanced Leverage Feeder Fund, in an effort to achieve priority in respect of the payment obligations of the Leverage Instrument Counterparty in the event of its bankruptcy or insolvency. There can be no assurance that any "security interest" will be achieved, maintained or, in the event of bankruptcy or insolvency, respected. If for any reason the Partnership fails to have a secured claim in the Master Fund shares held by the Leverage Instrument Counterparty with respect to the Leverage Instrument, the Partnership is likely to have the status of a "general unsecured creditor" in the event that the Leverage Instrument Counterparty is placed in liquidation rather than in reorganization.

In the relatively recent past there have been a number of high-profile failures of financial institutions due to violations or failures of interest controls, management misfeasance or malfeasance, or exposure to failed clients and counterparties (including hedge funds). Accordingly, prospective investors should understand that the failure of the Leverage Instrument Counterparty could result in a substantial delay in the return to the Partnership of capital invested in the Leverage Instrument, or partial or total loss of such capital.

**Profit Share.** The General Partner could receive substantial allocations if the Partnership generates Net New Income. Prospective investors should note that (i) the fact that the Profit Share is payable only out of Net New Income may create an incentive for the General Partner to make investments that are riskier or more speculative than would be the case if the General Partner were compensated solely based on a flat percentage of capital and (ii) the General Partner may receive increased allocations because the Profit Share will be calculated on a basis that includes unrealized appreciation as well as realized gains. If a Profit Share is allocated to the General Partner in respect of a Limited Partner's Capital Account and a loss is subsequently charged to such Capital Account, the General Partner is entitled to retain all Profit Shares previously allocated to it in respect of that account. In addition, any withdrawal fee payable to the Partnership by a Limited Partner will increase the return, if any, on remaining Capital Accounts and thereby also increasing the Profit Share (if any) allocable to the General Partner.

**Limited Partners Will Not Participate in Management.** A Limited Partner has no right to participate in the management of the Partnership or in the conduct of its business. There exists broad discretion to expand, revise, or contract the Partnership's business without the consent of the Limited Partners. Any decision to engage in a new activity could result in the exposure of the Partnership's capital to additional risks which may be substantial. Under certain circumstances, however, the Limited Partners may elect to remove the General Partner. See "Removal of the General Partner".

**Limited Liquidity of the Interests.** There is no public market for the transfer of Interests and Interests may not be transferred without the approval of the General Partner. Withdrawals are permitted only at month-end on 40 days' prior written notice, subject to a withdrawal fee of 2% of the amount withdrawn, and, as of the last Business Day of the twelfth month-end following any capital contribution and every subsequent third month-end following the first year anniversary of any capital contribution, on 60 days' prior written notice without being subject to any withdrawal fee, and the General Partner may suspend the determination of Net Asset Value and withdrawals under certain circumstances, including the closure or suspension of trading on any relevant exchange or a breakdown in the means normally employed by the Partnership to value assets. Further, the Partnership may make distributions in kind rather than in cash.

**Possible Effect of Withdrawals.** Substantial withdrawal requests could require the Partnership to liquidate its positions more rapidly than otherwise desirable to raise the necessary cash to fund withdrawals and achieve a market position appropriately reflecting a smaller asset base. These factors could adversely affect the Partnership's Net Asset Value.

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NOT TO BE DISTRIBUTED TO CLIENTS

***Mandatory Withdrawal.*** The General Partner may compel the withdrawal of any Limited Partner from the Partnership, in whole or in part, at any time without notice, if the General Partner reasonably believes that such Limited Partner subscribed for an Interest as a result of a misrepresentation or if such Limited Partner's continued participation in the Partnership would, in the reasonable judgment of the General Partner, put the Partnership or the other Limited Partners at a material tax, legal, regulatory, or pecuniary disadvantage or at any time upon 90 days' prior written notice if such Limited Partner's continued participation in the Partnership would, in the reasonable judgment of the General Partner, put the Partnership or the other Limited Partners at a material administrative disadvantage.

***Possible Indemnification Obligations.*** The Partnership is generally obligated to indemnify the General Partner, the Administrator and possibly other parties under the various agreements entered into with such persons against any liability they or their respective affiliates may incur in connection with their relationship with the Partnership.

***Contingent Liabilities.*** The General Partner has the power to establish such reserves for unknown or contingent liabilities as it may deem advisable. This could occur, for example, if some of the Partnership's positions were illiquid, if there are any assets that cannot be properly valued on the Withdrawal Date, or if there is any pending transaction or claim by or against the Partnership involving or that may affect the book value of the Interest of a withdrawing Limited Partner or the obligations of a withdrawing Limited Partner which cannot be then ascertained.

***Lack of Independent Experts Representing Investors.*** The Advisory Fee and Profit Share have not been negotiated at arm's length. Further, while the General Partner has consulted with counsel, accountants, and other experts regarding the structure and terms of the Partnership, such counsel does not represent the Partnership or the Limited Partners. The Partnership and the General Partner urge each prospective investor to consult its own legal, tax, and financial advisers regarding the desirability of purchasing Interests and the suitability of an investment in the Partnership.

***Institutional Risk.*** Institutions, such as brokerage firms, banks, and broker-dealers, generally have custody of the Partnership's portfolio assets and may hold such assets in "street name". Bankruptcy or fraud at one of these institutions could impair the operational capabilities or the capital position of the Partnership. The Partnership attempts to limit its investment transactions to well-capitalized and established banks and brokerage firms in an effort to mitigate such risks.

Notwithstanding the foregoing, markets in which the General Partner may effect transactions (e.g., credit default risk swaps) may include OTC or "interdealer" markets, and may also include unregulated private markets. The participants in such markets are typically not subject to the same level of credit evaluation and regulatory oversight as are members of the exchange-based markets. This exposes the Partnership to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Partnership to suffer a loss. Such counterparty risk is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the General Partner has concentrated its transactions with a single or small group of counterparties. The General Partner is not restricted from dealing with any particular counterparty or from concentrating any or all transactions with one counterparty. The ability of the General Partner to transact business with any one or number of counterparties, the lack of any meaningful or independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Partnership.

#### **Other Risks**

***Risks Relating to Absence of, and Changes in, Statutory Regulation.*** The Partnership is not registered under the Company Act or under the Commodity Exchange Act. Limited Partners, therefore, are not accorded the protective measures resulting from registration under such legislation. The Partnership may trade on certain foreign security exchanges as well as over-the-counter markets. Such exchanges and markets are not subject to regulation by any U.S. governmental agency and, accordingly, the protections afforded by such regulation will not be available to such investments.

**Regulatory Change.** The regulation of the U.S. and non-U.S. securities and derivatives markets and of investment funds such as the Partnership has undergone substantial change in recent years, and such change is expected to continue for the foreseeable future. The effect of regulatory change on the Partnership, while impossible to predict, could be substantial and adverse.

**General Economic and Financial Conditions.** The success of any investment activity is influenced by general economic and financial conditions that may affect the level and volatility of equity prices, interest rates, and the extent and timing of investor participation in the markets for both equity and interest-rate-sensitive securities. Unexpected volatility, illiquidity, governmental action, currency devaluation, or other events in global markets in which the Partnership directly or indirectly holds positions could impair the Partnership's ability to carry out its business and could cause the Partnership to incur substantial losses.

**Tax Risk Factors.** There are a number of tax risk factors associated with an investment in the Partnership, including but not limited to certain risks relating to the tax characterization and tax treatment of the Leverage Instrument for U.S. federal income tax purposes. See "*Certain U.S. Federal Income Tax Considerations*".

INTERESTS ARE SPECULATIVE AND INVOLVE A HIGH DEGREE OF RISK. THEY ARE SUITABLE ONLY FOR PERSONS WHO CAN AFFORD TO LOSE THEIR ENTIRE INVESTMENT. THE FOREGOING LIST OF RISK FACTORS DOES NOT PURPORT TO BE A COMPLETE EXPLANATION OF THE RISKS INVOLVED IN THIS OFFERING.

## CONFLICTS OF INTEREST

The following inherent and potential conflicts of interest exist in respect of the Partnership.

### Compensation

The Partnership Agreement has not been negotiated at arm's length. The Advisory Fee payable to the General Partner and any brokerage commissions payable to Bear, Stearns Securities Corp. and, as applicable, Bear, Stearns International Limited and/or other members of the group of companies (each such member (but specifically not including the General Partner), a "Bear Stearns Entity") directly or indirectly owned by BSC (collectively, the "The Bear Stearns Group") are payable without regard to the overall success of or income earned by the Partnership.

### Appointment

The General Partner as general partner has an apparent conflict of interest between its fiduciary duty to the Partnership as general partner and its selection of itself as the Partnership's General Partner. Prospective investors must recognize that the Partnership has been formed specifically as an investment product to be managed by the General Partner, and that the General Partner will not appoint any other investment manager for the Partnership or the Master Fund even if doing so might be in the Partnership's best interests.

### Advisory Time

The General Partner and its affiliates and their key personnel will devote as much of their time to the business of the Partnership and the Master Fund as in their judgment is reasonably required. However, they are presently committed to and expect to be committed in the future to providing investment advisory services and securities research and brokerage services for other clients (including other pooled accounts) and engage in other business ventures in which the Partnership and the Limited Partners have no interest. As a result of these separate business activities, the General Partner may have conflicts of interest in allocating management time, services, and functions among the Partnership and other business ventures or clients.

In particular, Ralph Cioffi, Matthew Tannin and certain other members of the management team are responsible for managing the sizeable investment portfolio underlying certain other funds that focus primarily on leveraged investments in structured finance securities, including the High-Grade Fund. In addition, as of the date of this Memorandum, Mr. Cioffi, Mr. Tannin and other members of the management team are involved in the

establishment of, and will continue to manage, a derivatives product company, the primary strategy of which is to write credit default swap protection on a portfolio of debt instruments, and Rampart. BSAM, including certain members of the management team, also manages substantial investment portfolios for multiple CDOs.

#### **Other Clients; Allocation of Investment Opportunities**

The General Partner is responsible for the investment decisions made on behalf of the Partnership and the Master Fund. There are no restrictions on the ability of the General Partner and its affiliates to manage accounts of other clients following the same or different investment objective, philosophy, and strategy as those used for the Partnership. In fact, the General Partner and its affiliates currently manage and expect to continue to manage other portfolios that may invest pursuant to the same or different strategies as those employed by the Partnership. If a determination is made that the Partnership and another client of the General Partner and its affiliates should trade in the same securities on the same day, such securities will be allocated between the Partnership and other accounts in a manner that the General Partner and its affiliates determine in their discretion. Circumstances may occur in which an allocation could have adverse effects on the Partnership or the other client with respect to the price or size of securities positions obtainable or saleable. The results of the Partnership's activities may differ significantly from the results achieved by the Investment Manager or its affiliates for any other accounts or clients for which it or its affiliates may manage or provide investment advisory services.

More specifically, the General Partner and its related persons may buy and sell, for their own accounts, and hold proprietary positions in, the same securities they buy and sell for, or recommend to, the General Partner's clients. For example, the General Partner may purchase equity in CDOs for which it is providing investment management services.

As these situations may involve conflicts between the interest of the General Partner or its related persons, on the one hand, and the interests of the General Partner's clients, on the other, the General Partner has established internal policies to ensure that the General Partner and its personnel do not prefer their own interests to those of the General Partner's clients and that clients are treated fairly.

In addition, Ralph Cioffi, the senior portfolio manager of the General Partner, may from time to time on behalf of BSAM engage a broker-dealer affiliate of the General Partner to take advantage of structural arbitrage opportunities in connection with the "unwinding" of certain structured finance transactions. Such opportunities arise when the General Partner recognizes that the market value of the collateral that supports the debt securities of a structured finance transaction exceeds the cost to purchase such debt securities. By purchasing such securities and selling the collateral, the General Partner may "unwind" the structured finance transaction and realize profit from such excess of the collateral's value. BSAM will be compensated for such arbitrage transactions on an ad hoc basis. A conflict of interest would arise where BSAM receives a fee for engaging in an unwind transaction that relates to structured finance securities held by the Master Fund. However, if BSAM would receive a fee in connection with such transaction, the Partnership's portfolio managers will refer the compensation arrangement to BSAM's ethics committee for its determination of how to balance the interests of the Partnership with those of BSAM in accordance with BSAM's policies regarding conflicts.

#### **Proprietary Trading**

The General Partner and its principals, affiliates, and employees may trade in the securities and derivatives markets for their own accounts and the accounts of their clients, and in doing so may take positions opposite to, or ahead of, those held by the Partnership or may be competing with the Partnership for positions in the marketplace. Such trading may result in competition for investment opportunities or create other conflicts of interest on behalf of one or more such persons in respect of their obligations to the Partnership. Records of this trading will not be available for inspection by Limited Partners.

Bear Stearns and its affiliates are engaged in a broad spectrum of activities, including financial advisory activities and has extensive activities that are independent from and may from time to time conflict with those of the Partnership. Bear Stearns and its affiliates are actively engaged in transactions in the same securities and instruments in which the assets of the Partnership may be invested. Subject to applicable law, Bear Stearns and/or its affiliates may purchase or sell securities of, or otherwise invest, finance or advise issuers in which the Partnership

has an interest. Bear Stearns and/or its affiliates may have proprietary interests in, and may advise, sponsor, manage or invest in other investment vehicles that have investment objectives similar or dissimilar to those of the Partnership (including prospective investors in the Partnership) and which engage in the same types of securities and instruments as the Partnership. The proprietary activities or portfolio strategies of Bear Stearns and its affiliates or the activities or strategies used for accounts managed by Bear Stearns or its affiliates for other customer accounts could conflict with the transactions and strategies employed by the Partnership and affect the prices and availability of the securities and instruments in which the Partnership invests. Issuers of securities held by the Partnership may have publicly or privately traded securities in which Bear Stearns or its affiliates are investors or make a market. The trading activities of Bear Stearns and its affiliates generally are carried out without reference to positions held directly or indirectly by the Partnership and may have an effect on the value of the positions so held or may result in Bear Stearns or its affiliates having an interest in the issuer adverse to that of the Partnership. The results of the Partnership's activities may differ significantly from the results achieved by Bear Stearns or its affiliates for any proprietary account or from results achieved by Bear Stearns or its affiliates for any other accounts or clients for which it may manage or provide investment advisory services.

### **Brokerage Placement Practices**

The Investment Manager intends to utilize Bear, Stearns Securities Corp. ("BSSC" or the "Prime Broker"), an affiliated broker, as the Master Fund's prime broker and custodian. The Master Fund's brokerage placement practices involve certain conflicts of interest. See "*Brokerage Practices*".

The relationships among The Bear Stearns Group and the Investment Manager create a conflict of interest in that there exists an incentive for the Investment Manager to execute transactions with or through The Bear Stearns Group and for the Investment Manager and The Bear Stearns Group to cause the Master Fund to engage in a higher volume of trading than would exist in the absence of such relationship. However, the Investment Manager intends to make all investment decisions for the Master Fund without consideration of the brokerage commissions that may be payable to The Bear Stearns Group.

From time to time, the Partnership may utilize brokers that provide capital introduction services to the Partnership and other funds managed by the General Partner and its affiliates. Such services may result in more investors, and concomitantly more assets, in the Partnership, which may benefit both the Partnership and its Limited Partners, on the one hand, and the General Partner and its affiliates, on the other hand. Benefits to the General Partner and its affiliates are increased Management Fees and potentially higher Profit Share as a result of such potentially larger Partnership asset size. The possibility of such benefits to the General Partner and its affiliates results in a conflict of interest in its selection of such brokers and may create an incentive for the General Partner to continue to retain any such brokers. There is no guaranty that any benefits to either the Partnership and its Limited Partners or to the General Partner and its affiliates may be realized or that capital introduction services provided by any such brokers will actually increase the Partnership's assets. The Partnership, and not the General Partner, pays brokerage fees and other fees and expenses to its brokers. However, none of such fees or expenses are specifically allocable to any capital introduction services that a broker may provide.

The Master Fund is not required to allocate either a stated dollar or stated percentage of its brokerage business to any broker for any minimum time period, and will review such relationships from time to time.

The Investment Manager may, in its discretion, appoint additional or alternative prime broker(s) and custodian(s).

### **Brokerage Commissions/Soft Dollars**

Generally, the Investment Manager will direct brokerage to firms which furnish or pay for quotation and/or research, research-related services, and other products and services within the "safe harbor" provided by Section 28(e) of the Exchange Act. From time to time, however, the Investment Manager may receive research and research-related services and products through arrangements in fixed price underwritings without regard to the "safe harbor" provided by Section 28(e) of the Exchange Act, provided that the Investment Manager believes such arrangements to be in the best interests of the Partnership. Such services and products are of the same type as may be acquired with soft dollars in agency trades, but are not within the safe harbor because fixed price underwritings are done on a principal basis.

The Investment Manager is expected to derive substantial direct or indirect benefit from these services, particularly to the extent the Investment Manager uses soft dollars to pay for expenses which it would otherwise be required to pay. The investment information and soft dollar benefits received from brokers may be used by the Investment Manager in servicing other accounts, and not all such information and soft dollar benefits may be used by the Investment Manager in connection with the Master Fund. The Investment Manager is not required to allocate soft dollar benefits *pro rata* or on any other equitable basis among its accounts.

In negotiating commission rates the Investment Manager will take into account the financial stability and reputation of the broker, the quality of the investment research, investment strategies, special execution capabilities, clearance, settlement, custody, recordkeeping and other services provided by such broker.

#### **Principal Trades and Interested Party Transactions; Cross Transactions**

Section 206(3) of the Investment Advisers Act of 1940, as amended (the “Advisers Act”) provides that it is unlawful for any investment adviser, directly or indirectly “acting as principal for his own account, knowingly to sell any security to or purchase any security from a client, or acting as broker for a person other than such client, knowingly to effect any sale or purchase of any security for the account of such client, without disclosing to such client in writing before the completion of such transaction the capacity in which he is acting and obtaining the consent of the client to such transaction”. Transactions subject to the foregoing requirements are sometimes referred to as “principal trades”.

To the extent permitted by applicable law, the Investment Manager may enter into transactions and invest in futures, securities, currencies or other instruments (including repurchase agreements and other forms of financing) on behalf of the Master Fund in which a Bear Stearns Entity, acting as principal or as agent for its customers, serves as the counterparty. The Investment Manager may also enter into cross transactions where a Bear Stearns Entity acts as agent on behalf of the Master Fund and the other party to the transaction. Cross transactions enable the Investment Manager to purchase or sell a block of securities for the Master Fund at a set price and possibly avoid an unfavorable price movement that may be created through entrance into the market with such purchase or sell order. The relevant Bear Stearns Entity may have a potentially conflicting division of responsibilities to both parties to such cross transaction.

The purchase or sale of an investment in a transaction requiring notice and consent under the “principal trade” provisions of Section 206(3) of the Advisers Act (each, a “Principal Transaction”) may be presented for the review and (i) prior approval of the independent Master Fund Directors or such other advisory party as established by the General Partner in accordance with the Partnership Agreement or (ii) the Consent of the Partnership (as defined in the Partnership Agreement), excluding from the determination of such consent any Interests held by the Investment Manager and any of its affiliates. In that connection, the Subscription Agreement of each Limited Partner provides that each Limited Partners consents and agrees that if any transaction, including any transaction effected between the Master Fund and the Investment Manager or its affiliates, is subject to the disclosure and consent requirements of Section 206(3) of the Advisers Act, such requirements will be satisfied with respect to the Master Fund and all Limited Partners if disclosure is given to, and consent obtained from, the independent Master Fund Directors or such other advisory party.

On occasion, an account advised by BSAM may sell a particular security at the same time another account advised by BSAM buys the same security. In such situations, BSAM may effect cross transactions directly between such accounts, provided that such transactions have been authorized by the accounts in question, are consistent with the investment objectives and policies of such accounts (and, if applicable, with the procedures for such transactions established by the Partnership), are, in the view of the respective portfolio managers, favorable to both sides of such transactions and are otherwise executed in accordance with applicable rules and regulations. In addition, such transactions may only be undertaken if no commissions are paid to BSAM or any affiliate thereof. Notwithstanding the foregoing, however, cross transactions between managed accounts may result in the incurrence by such accounts of custodial fees, taxes or other related expenses.

Because the Investment Manager will serve as collateral manager of the Repackaging Vehicles, the purchase of the Repackaging Vehicle Junior Interests may be deemed to be a principal trade. The Investment Manager will, therefore, make appropriate disclosure to, and obtain consent from, the members of the board of directors of the



Master Fund who are not affiliated with the Investment Manager prior to the investment by the Master Fund in Repackaging Vehicle Junior Interests.

To the extent permitted by applicable law, the Partnership may purchase investments that are issued, or are the subject of an underwriting or other distribution by Bear Stearns or its affiliates. The Partnership may invest in the securities of issuers affiliated with Bear Stearns or in which Bear Stearns has an equity or participation interest. The purchase, holding and sale of such investments by the Partnership may enhance the profitability of investments made by Bear Stearns or its affiliates. The General Partner has fiduciary responsibilities with respect to the Partnership and will make such investment decisions in a manner which is consistent with those responsibilities.

#### **Investment Manager's Role as Repackaging Vehicle Collateral Manager**

In managing the assets of a Repackaging Vehicle as its collateral manager, the Investment Manager will have certain responsibilities which may potentially favor the interests of the holders of Repackaging Vehicle Securities that are senior to the Repackaging Vehicle Junior Interests or otherwise conflict with the investment objectives of the Partnership. However, while it is anticipated that the investment guidelines of a Repackaging Vehicle may restrict the Collateral Manager's discretion in selecting and managing a Repackaging Vehicle's investment portfolio and limit its reinvestment period to five years, the Investment Manager anticipates that the interests of the holders of the Repackaging Vehicle Securities will generally be aligned with the interests of the Limited Partners. In addition, the Investment Manager will pay over or otherwise transfer to the Master Fund any fees to which it would otherwise be entitled as Repackaging Vehicle Collateral Manager, but will be reimbursed for any of its out-of-pocket expenses incurred in the establishment of a Repackaging Vehicle and in its ongoing operations and may be indemnified for certain losses in connection with its role as Collateral Manager.

#### **Asset Valuation**

The fees payable to the General Partner are based directly on the Net Asset Value of the Partnership as of various dates. There may be no public market price for a portion of the Partnership's assets. The General Partner will generally value the Partnership's assets. Any financial instruments for which market quotations are not readily available will be valued at fair value as reasonably determined in good faith by the General Partner. The General Partner will have a conflict of interest in making such valuations because the valuations directly affect the Net Asset Value of the Partnership and thus the amount of the Advisory Fee and the Profit Share that the General Partner receives in respect of its services. Such valuations, however, will be performed by the General Partner in accordance with the methodology described in this Memorandum.

#### **Material Non-Public Information**

By reason of the advisory, investment banking, market-making and/or other activities of the General Partner and its affiliates, the General Partner and its affiliates may acquire confidential or material non-public information or be restricted by internal policies from initiating transactions in certain securities. The General Partner will not be free to divulge, or to act upon, any such confidential or material non-public information and, due to these restrictions, it may not be able to initiate or recommend certain types of transactions in certain securities or instruments for the Partnership's account that it otherwise might have initiated. The Partnership may be frozen in an investment position that it otherwise might have liquidated or closed out.

#### **Borrowing Arrangements**

Certain conflicts of interest may arise should the Partnership or the Master Fund enter into borrowing arrangements with any member of The Bear Stearns Group. In such situations, the General Partner has a conflict between its obligation to act in the best interests of the Limited Partners and any interest it may have in generating fees and other revenues for itself or its affiliates. Such arrangements may create other conflicts of interest since such financing and other transactions could, in certain circumstances, negatively impact the Partnership if the terms were made less favorable or if they were reduced or terminated and such member of The Bear Stearns Group may keep any profits, commissions and fees accruing in connection with such financing. In addition, in the event of adverse investment performance, the interest of such member in exercising available remedies may conflict with the interests of the

Partnership. For instance, in its capacity as lender or counterparty, such member may take actions, such as foreclosing on collateral, that may have a material adverse affect on the Partnership. The Partnership will not be entitled to, and may not receive, any special consideration or forbearance by such member in the exercise of such member's rights, as a result of the Partnership's relationship with The Bear Stearns Group. If the General Partner engages in repurchase agreements with a Bear Stearns Entity, the terms of any particular transaction, including any pricing rate, repurchase price or margin percentages negotiated with the relevant Bear Stearns Entity may not individually or in the aggregate be the most favorable available.

#### **Cash Balance Investments**

The General Partner may invest a portion, and reserves the right in the future to invest all or substantially all, of the Partnership's short-term cash investments in money market funds advised and/or distributed by Bear Stearns or its affiliates. In such instances, each Limited Partner will bear, indirectly, its proportionate share of any investment advisory, distribution and other fees and expenses paid by the Partnership and Bear Stearns or its affiliates will earn additional compensation in connection with such investments. Such advisory, distribution and other fees and expenses will be in addition to any management fees, profit share and other expenses payable in respect of such Limited Partner's investment in the Partnership.

### **THE GENERAL PARTNER AND INVESTMENT MANAGER**

#### **General Partner of the Partnership**

Bear Stearns Asset Management Inc., a corporation formed under the laws of the State of New York, is the General Partner of the Partnership. The General Partner is generally responsible for the operation of the Partnership, including investment management responsibilities, but has delegated certain administrative duties to the Administrator.

The General Partner is registered with the SEC as an investment adviser under the Advisers Act. A copy of the General Partner's Form ADV, Part II is being delivered to investors in connection with the delivery of this Memorandum.

The General Partner is a wholly owned subsidiary of BSC. Affiliates of the General Partner, including Bear, Stearns & Co. Inc. ("Bear Stearns"), are engaged, among other things, in the business of providing investment advice to pension and profit sharing plans, endowment funds, insurance companies and bank trust departments and in providing administrative services to investment companies. As of February 28, 2006, the General Partner and its affiliates had over \$45.4 billion in third-party funds under discretionary management.

In addition to serving as the General Partner of the Partnership, BSAM also serves as the investment manager of each of the Master Fund and the Other Feeder Funds. The following individuals are primarily responsible for the management of the Master Fund's investment portfolio:

**Ralph Cioffi, Senior Portfolio Manager** – Mr. Cioffi is a Senior Managing Director of BSAM, has been with Bear Stearns since 1985 and is a member of BSAM's Board of Directors. From 1985 through 1991, Mr. Cioffi worked in institutional fixed income sales for Bear Stearns, where he specialized in structured finance products. He served as the New York head of fixed income sales for Bear Stearns from 1989 through 1991. From 1991 through 1994, Mr. Cioffi served as global product and sales manager for high grade credit products. He was involved in the creation of the Structured Credit effort at Bear Stearns and was a principal force behind Bear Stearns' position as a leading underwriter and secondary trader of structured finance securities, specifically collateralized debt obligations and esoteric asset backed securities. Mr. Cioffi has headed the investment team that manages the Bear Stearns High Grade Structured Credit Strategies Funds since March of 2003. He holds a B.S. degree in Business Administration with distinction from Saint Michaels College, Vermont, and is a member of the international business management and administration honor society, Sigma Beta Delta.

**Ray McGarrigal, Portfolio Manager** – Mr. McGarrigal is a Managing Director and has been in the Bear Stearns Financial Analytics and Structured Transactions group for 10 years where he structured high yield CDO's and

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CLO's as well as mortgage related and credit derivative deals. He has worked closely with all three rating agencies and brings structuring and surveillance expertise to the management team. Mr. McGarrigal has an M.B.A. in finance from New York University and a B.S. from the State University of New York at Oneonta.

**Matthew Tannin, Chief Operating Officer** – Mr. Tannin is a Senior Managing Director of BSAM, has been with Bear Stearns since 1994 and is the Chief Operating Officer of the Bear Stearns High Grade Structured Credit Strategies Fund. Previously, he spent seven years on Bear Stearns' Collateralized Debt Obligation Structuring Desk, focusing on emerging markets, high grade and market value transactions. From June of 2001 through February of 2003, he followed the CDO market as an analyst in Bear Stearns' Asset-Backed Research Group. Mr. Tannin received a J.D. from the University of San Francisco in 1993 and was a law clerk on the California Court of Appeal. Mr. Tannin received a BA in 1983 from Bucknell University where he was a Preston Warren scholar in philosophy.

#### **Removal of the General Partner**

Limited Partners not affiliated with the General Partner may remove the General Partner upon the affirmative vote of a Majority in Interest of the Limited Partners in accordance with the procedures set forth in the Partnership Agreement.

The Memorandum and the Articles of Association of the Master Fund contain provisions relating to the removal of the Master Fund Directors substantially similar to the foregoing provisions.

#### **Affiliated Investors**

The General Partner or its principals or affiliates will initially invest at least \$10,000,000 in the Partnership. The General Partner, its principals and/or its affiliates may from time to time, directly or through other investment vehicles (including one or more investment vehicles formed for the benefit of Bear Stearns and its affiliates), make additional investments in the Partnership and/or invest in the Offshore Enhanced Leverage Feeder Fund. The General Partner, its principals and/or its affiliates are not required to maintain any investment in the Partnership or the Offshore Enhanced Leverage Feeder Fund, and may withdraw its investment in the Partnership at any time without notice to Limited Partners.

#### **Liability and Indemnification of the General Partner under the Partnership Agreement**

Under the Partnership Agreement, to the extent that, at law or in equity, any of the General Partner, any affiliate of the General Partner, and any member, partner, shareholder, manager, director, officer, employee, or agent of the General Partner or any such affiliate (each such party, a "General Partner Party") has duties (including fiduciary duties) and liabilities relating thereto to the Partnership or any Limited Partner, such General Partner Party shall not be liable for monetary or other damages to the Partnership or such Partner for such General Partner Party's good faith reliance on the provisions of the Partnership Agreement or for Losses (as defined in the Partnership Agreement) sustained or liabilities incurred by the Partnership or such Limited Partner as a result of: (i) errors in judgment on the part of such General Partner Party, or any act or omission of such General Partner Party, if such General Partner Party acted without fraud, bad faith, gross negligence or willful misconduct; (ii) errors in judgment on the part of any person, or any act or omission of any person, selected by such General Partner Party to perform services for the Partnership, *provided* that, in selecting such person, such General Partner Party acted without fraud, bad faith, gross negligence or willful misconduct; (iii) circumstances beyond such General Partner Party's control, including the bankruptcy, insolvency or suspension of normal business activities of any bank, brokerage firm or custodian holding the Partnership's assets; or (iv) failure to obtain the lowest negotiated brokerage commission rates, or to combine or arrange orders so as to obtain the lowest brokerage commission rates, with respect to any transaction on behalf of the Partnership, or failure to recapture, directly or indirectly, any brokerage commissions for the benefit of the Partnership.

In addition, the Partnership Agreement provides that the Partnership shall, to the fullest extent permitted by law, indemnify each General Partner Party from and against any and all Losses, except to the extent that it is finally adjudicated that an act or omission of such General Partner Party was material to the matter giving rise to such

Losses and was committed by such General Partner Party with fraud, bad faith, willful misconduct or gross negligence.

The foregoing exculpatory and indemnification provisions may limit the remedies that might otherwise be available to the Partnership or the Limited Partners and/or result in a reduction of Net Asset Value due to indemnification payments. However, these provisions are not intended to permit exculpation or indemnification to the extent it would be inconsistent with the requirements of applicable federal or state securities laws or any other applicable laws. In addition, the indemnification provisions shall in no event cause the Limited Partners to incur any personal liability beyond their total Capital Accounts, nor shall it result in any liability of the Limited Partners to any third party.

The scope of permitted exculpation of general partners of Delaware limited partnerships continues to develop and change, and Limited Partners with questions concerning the duties of the General Partner Parties should consult their counsel. If a Limited Partner believes a General Partner Party has violated its fiduciary duty to the Partnership, he may seek legal relief for himself or on behalf of the Partnership under applicable laws to recover damages from or require an accounting by the General Partner Party. The disclosures relating to the business terms of the Partnership contained herein (and Limited Partners' consent thereto) would be used as a defense by a General Partner Party were a Limited Partner to assert that such General Partner Party had violated its fiduciary duty in agreeing to such terms.

#### **Investment Manager; the Investment Management Agreement**

For a description of BSAM and of the individuals primarily responsible for the management of the Master Fund's investment portfolio, see above under "—General Partner of the Partnership".

The Investment Manager entered into a discretionary investment management agreement with the Master Fund (the "Investment Management Agreement"). The Investment Management Agreement may be terminated by the Master Fund or the Investment Manager at any time upon 60 days' prior written notice to the other party. The Master Fund may terminate the Investment Management Agreement without any notice at any time for cause, which is defined as fraud, bad faith, gross negligence or willful misconduct of the Investment Manager with respect to its performance or non-performance of its duties or obligations under the Investment Management Agreement. It is not intended that the Master Fund will appoint an investment manager that is not affiliated with The Bear Stearns Group. The Investment Management Agreement provides that the Investment Manager may assign or delegate to one or more affiliates of the Investment Manager some or all of the Investment Manager's rights and duties under the Investment Management Agreement.

The Investment Management Agreement contains broad indemnification provisions that require the Master Fund to indemnify the Investment Manager and its affiliates, directors, managers, shareholders, officers, controlling persons, employees, sub-advisers (and their respective affiliates, directors, managers, shareholders, partners, members, officers, controlling persons, employees, and agents) and agents (including any individual who serves at the Investment Manager's request as director, officer, partner, trustee, or the like of another entity, including the Master Fund) and/or the legal representatives and controlling persons of any of the foregoing (each of the foregoing being an "Indemnified Party"), to the fullest extent permitted by applicable law against any liabilities, claims, and expenses, including amounts paid in satisfaction of judgments, in compromise, or as fines and penalties, and counsel fees and expenses reasonably incurred by such Indemnified Party in connection with the defense or disposition of any action, suit, or other proceeding, whether civil or criminal, before any court or administrative or investigative body, in which such Indemnified Party may be or may have been involved as a party or otherwise or with which such Indemnified Party may be or may have been threatened, while acting in any capacity described above or thereafter by reason of such Indemnified Party having acted in any such capacity, except with respect to any matter as to which such persons shall have been adjudicated by the highest court or tribunal that has jurisdiction over such matters to have acted in bad faith in determining that such person's action was in the best interest of the Master Fund and furthermore, in the case of any criminal proceeding, so long as such person had no reasonable cause to believe that the conduct was unlawful; *provided, however*, that (i) no indemnification shall be provided to any person for losses or expenses incurred as a result of such person's fraud, bad faith, gross negligence, or willful misconduct and (ii) with respect to any action, suit, or other proceeding voluntarily prosecuted by any Indemnified Party as plaintiff, indemnification shall be mandatory only if the prosecution of such action, suit, or other proceeding by such Indemnified Party was authorized by the Master Fund's Board of Directors. Further, the Investment Manager shall

have no liability to the Master Fund for losses or expenses incurred so long as such losses or expenses did not arise by reason of the Investment Manager's fraud, bad faith, gross negligence or willful misconduct. The indemnification and exculpation provisions in the Investment Management Agreement shall not be construed as a waiver of any rights of the Master Fund or any investor under U.S. securities laws.

The Master Fund, in the discretion of the Master Fund's Board of Directors, shall make advance payments in connection with the expenses of defending any action with respect to which indemnification might be sought hereunder if the Master Fund receives a written affirmation of the Indemnified Party's good faith belief that the standard of conduct necessary for indemnification has been met and a written undertaking to reimburse the Master Fund unless it is subsequently determined that such Indemnified Party is entitled to such indemnification and if the Master Fund determines that the facts then known to it would not preclude indemnification. In addition, at least one of the following conditions must be met: (i) the Indemnified Party shall provide reasonable collateral for such Indemnified Party's undertaking; (ii) the Master Fund shall be insured against losses arising by reason of any lawful advances; or (iii) an independent legal counsel, in written opinion, at the expense of the Indemnified Party, shall determine, based on a review of readily available facts (as opposed to a full trial-type inquiry), that there is reason to believe that the Indemnified Party ultimately will be found entitled to indemnification.

## **THE MASTER FUND**

### **Capitalization**

The Master Fund's authorized share capital is U.S. \$3,000, divided into 1,000 ordinary shares (the "Ordinary Shares") of U.S. \$0.001 par value each, all of which have been issued to, and will be divided equally among and held on an ongoing basis by the Partnership and Other Feeder Funds; and 2,999,000 participating shares, U.S. \$0.001 par value each (the "Participating Shares" or "Shares"). All Shares of the Master Fund, when duly issued, will be fully paid and nonassessable. No capital of the Master Fund is under option or agreed, conditionally or unconditionally, to be put under option to any person. The Board of Directors may issue the Shares in separate tranches or series.

The Ordinary Shares have the entire voting power of the Master Fund but do not participate in the Master Fund's profits and are not redeemable, and on a winding up are entitled only to return of their par value, and then only after the payment of the par value of the Participating Shares. Each Ordinary Share is entitled to one vote per Ordinary Share. Except with respect to the material adverse variation or abrogation of rights attached to any separate tranche of Participating Shares, the holders of Participating Shares do not have any right to vote. Participating Shares are participating and redeemable. The holders of Participating Shares are entitled to receive, to the exclusion of the Ordinary Shares, any dividends which may be declared by the Board of Directors or any committee of the Board of Directors of the Master Fund.

No certificates will be issued for the Shares. Investors' shareholdings will be recorded in the Master Fund's books and records.

### **Master Fund Directors; Delegation**

The Directors of the Master Fund have ultimate authority over the Master Fund's operations, although the Directors have delegated authority to make investment decisions to the Investment Manager and have delegated responsibility for administration of the Master Fund to the Administrator. The Master Fund's Board of Directors is comprised of five directors, of whom three are affiliated, and two unaffiliated, with the Investment Manager. The unaffiliated Master Fund Directors may (and the initial unaffiliated Master Fund Directors do) serve as directors for other funds advised by the Investment Manager or its affiliates.

The following individuals serve as the directors of the Master Fund (the "Master Fund Directors") and also serve as the directors of the Offshore Enhanced Leverage Feeder Fund:

**Barry J. Cohen** – Mr. Cohen is a Senior Managing Director and Director of Alternative Investments (Hedge Funds) for BSAM and is a member of the board of directors of Bear, Stearns & Co. Inc. Mr. Cohen joined Bear Stearns in

1987 as head of its Risk Arbitrage Department, which is one of the largest risk arbitrage operations in the world, and later headed the Bear Stearns Global Equity Arbitrage Funds. Prior to joining Bear Stearns in 1987, Mr. Cohen was a risk arbitrageur at First Boston Corporation, a partner in Bedford Partners, a risk arbitrage hedge fund and a mergers and acquisitions lawyer at Davis Polk & Wardwell. Mr. Cohen holds a B.A. in Applied Mathematics from Harvard College and received J.D. and M.B.A. degrees from Harvard Law and Harvard Business Schools, respectively.

**David G. Sandelovsky** – Mr. Sandelovsky is a Senior Managing Director of Alternative Investments (Hedge Funds) for BSAM. Mr. Sandelovsky joined BSAM in 2004 as the COO of its hedge fund business. Prior to joining BSAM, Mr. Sandelovsky served as a Managing Director at Deutsche Asset Management where he was Head of Trading and Risk for Single Manager Strategies in the Absolute Return Strategies division. Previously, Mr. Sandelovsky was a managing director and partner at Bankers Trust Company where he ran Foreign Exchange Trading and Sales in New York and served as a member of the Global Trading and Sales Management Committee. Mr. Sandelovsky holds a B.S. from The Wharton School, University of Pennsylvania.

**Gerald Cummins** – Mr. Cummins is a Managing Director of BSAM responsible for hedge fund middle office support and firm-wide operations risk. Mr. Cummins joined Bear Stearns in 1980 as part of its management training program and joined BSAM in 1984 to provide operations support for a newly developed options overwrite products. He is currently a member of the BSAM Pricing, Risk and Best Execution Committees. Mr. Cummins received his B.A. in Mathematics from Fordham University.

**Scott P. Lennon** – Mr. Lennon is a Senior Vice President of Walkers SPV Limited (“Walkers SPV”), a Cayman Islands licensed trust company and mutual fund administrator. He heads the Fund Services Group at Walkers SPV. Prior to joining Walkers SPV in November 2003, Mr. Lennon worked at State Street Cayman Trust Company Ltd, which acquired the Global Securities Services business of Deutsche Bank (Cayman Islands) in February 2003. At Deutsche Bank, Mr. Lennon was the Head of Investment Funds from April 2001 to February 2003. Mr. Lennon holds a Bachelor of Commerce from Carleton University in Ottawa, Canada, and a Graduate Diploma in Public Accounting from McGill University, Montreal, Canada. Mr. Lennon is a member of the Institute of Chartered Accounts of Ontario and the American Institute of Certified Public Accountants, and he is a Chartered Financial Analyst charterholder. In addition, Mr. Lennon is a member of the CFA Institute and a member of the board of directors of the Cayman Islands Society of Financial Analysts.

**Michelle M. Wilson-Clarke** – Ms. Wilson-Clarke is a Vice President of Fund Services at Walkers SPV. Prior to joining Walkers SPV, Ms. Wilson-Clarke was a Vice President and Relationship Analyst at Wellington Management Company, LLP in Boston Massachusetts. In addition, Ms. Wilson-Clarke has a broad range of experience in capital markets, fund compliance and fund risk analysis. Ms. Wilson-Clarke received a B.S. in Mathematics and Computer Science from Howard University in Washington D.C., an M.B.A. in Finance from the Sloan School of Management at the Massachusetts Institute of Technology, and a M.S. in Mathematics.

#### **Certain Provisions of the Master Fund’s Articles of Association Relating to Directors**

A Director is not required to hold any Shares of the Master Fund by way of qualification. The remuneration of Directors shall be determined by the Master Fund’s Board of Directors and any Director who serves on any committee or devotes special attention to the business of the Master Fund or performs services which, in the opinion of the Directors, are outside the scope of the ordinary duties of a Director may be paid such extra remuneration as the Directors may determine; *provided, however*, any Directors who also are directors, officers or employees of the Investment Manager shall not receive any remuneration from the Master Fund other than as part of the fees described under “Fees and Expenses” herein and in the following sentence. Directors may be reimbursed by the Master Fund for reasonable travel, hotel and other out-of-pocket expenses properly incurred by them in attending and returning from meetings of Directors or general meetings of the Master Fund or otherwise in connection with the business of the Master Fund.

A Director may hold any other office under the Master Fund (other than the office of the auditor) in conjunction with his office of Director, or may act in a professional capacity to the Master Fund on such terms as the Board of Directors may determine. No Director shall be disqualified, by his office, from contracting with the Master Fund, nor shall any such contract or any contract or arrangement entered into by the Master Fund in which any Director

shall be in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Master Fund for any profit realized by any such contract or arrangement by reason of such Director holding that office if he shall declare the nature of his interest. If a Director has a material interest in the business to be conducted at any meeting, that Director will disclose such conflict to the other Directors. Persons who are directors, officers or employees of the Investment Manager may not contract with the Master Fund except as described herein.

A Director, notwithstanding his interest, may be counted in the quorum present at any meeting at which he or any other Director is appointed to hold any office or place of profit under the Master Fund and at which the terms of any such appointment are arranged, and he may vote on any such appointment or arrangement.

The maximum and minimum number of Master Fund Directors to be appointed may be fixed from time to time by a participating shareholder resolution; *provided, however* that during the pendency of a Removal Petition, the maximum and minimum number of Master Fund Directors may not be altered. Unless otherwise fixed, the minimum number of Master Fund Directors is one and the maximum number of Master Fund Directors is unlimited.

No Director of the Master Fund has any interest, direct or indirect, in any assets which have been or are proposed to be acquired or disposed of by, or leased to or by, the Master Fund since the date of incorporation of the Master Fund.

#### **Indemnification of Directors**

The Articles of Association of the Master Fund contain provisions indemnifying and exempting the members of the Board of Directors of the Master Fund, and its officers and agents, from liability in the discharge of their duties.

The Articles of Association of the Master Fund provide that no Director shall be liable (i) for the acts, receipts, neglects, defaults or omissions of any other director or officer or agent of the Master Fund, or (ii) for any loss on account of defect of title to any property of the Master Fund, or (iii) on account of the insufficiency of any security in or upon which any money of the Master Fund shall be invested, or (iv) for any loss incurred through any bank, broker or similar person, or (v) for any loss occasioned by any negligence, default, error of judgment or oversight on his part, or (vi) for any loss, damage or misfortune whatsoever which may happen in or arise from the execution or discharge of the duties, powers, authorities, or discretions of such Director's office or in relation thereto, in each case, unless the same shall happen through such Director's own bad faith, gross negligence or willful misconduct.

Every Director and officer of the Master Fund (but not including the auditors), and the personal representatives of the same shall, in the absence of such indemnified person's bad faith, gross negligence or willful misconduct, be indemnified and secured harmless out of the assets and funds of the Master Fund to the fullest extent permitted by applicable law, against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained by such Director or officer in or about the conduct of the Master Fund's business or affairs or in the execution or discharge of such Director's or officer's duties, powers, authorities or discretions, including without prejudice to the generality of the foregoing, any costs, expenses, losses or liabilities incurred by such Director or officer in defending (whether successfully or otherwise) any civil proceedings concerning the Master Fund or its affairs in any court whether in the Cayman Islands or elsewhere.

Notwithstanding the foregoing, the Master Fund will not indemnify any of its officers or Directors for any act or omission constituting gross negligence or willful misconduct.

#### **Other Provisions Relating to the Directors**

A Director may vote on a proposal, arrangement or contract in which he is materially interested as provided for in the Memorandum and Articles of Association. A Director may be a director or other officer or employee of any company that provides services to the Master Fund or in which the Master Fund may be interested and, unless otherwise agreed, no such Director will be accountable to the Master Fund for any remuneration or other benefits received thereby.

### **Transactions between the Master Fund and the Investment Manager or its Affiliates**

Members of the Board of Directors who are not affiliated with the Investment Manager or their delegates or other authorized representatives of the Master Fund will have the responsibility for approving any transactions between the Master Fund and the Investment Manager or its affiliates involving significant conflicts of interest (including principal trades).

More particularly, Directors unaffiliated with the Investment Manager or any delegate designated by such Directors will be responsible for approving any principal transactions for which Master Fund consent is required pursuant to Rule 206(3) of the Advisers Act. The Investment Manager and its affiliates are not required to obtain approval for any transaction unless such approval is required by law.

### **THE ADMINISTRATOR**

PFPC Inc. (Delaware), a Massachusetts corporation, serves as the administrator, registrar and transfer agent of the Partnership, the Master Fund and the Other Feeder Funds (the "Administrator") pursuant to an administrative services agreement (the "Administration Agreement") between the Partnership and the Administrator.

Pursuant to the Administration Agreement, the Administrator serves as administrator, registrar and transfer agent and provides all day-to-day administrative services to the Partnership, including accounting and clerical functions, processing the issuance, transfer, and withdrawal of the Interests, maintaining all appropriate Limited Partner registers and ledgers, distributing annual reports and account statements to Limited Partners, responding to inquiries received from Limited Partners, prospective investors, and others, preparing and maintaining all financial and accounting books and records, maintaining the Partnership's principal administrative records, disbursing payment of expenses of the Partnership, responding to inquiries from the general public, and notifying the General Partner of withdrawal requests. The Administration Agreement may be terminated after the initial two year term, among other circumstances, at any time without penalty by either of the parties upon not less than 60 days' written notice to the other party.

Pursuant to the Administration Agreement, the Administrator is liable only for any damages arising out of its failure to perform its duties under the Administration Agreement to the extent such damages arise out of the Administrator's willful misfeasance, bad faith, negligence or reckless disregard of such duties or a material breach by the Administrator of the Administration Agreement. The Partnership agrees to indemnify and hold harmless the Administrator and its affiliates from all taxes, charges, expenses, assessments, claims and other liabilities, including, without limitation, reasonable attorneys' fees and disbursements (any such liability, a "Loss"), arising directly or indirectly from any action, or omission to act, in accordance with the Administration Agreement; *provided* that neither the Administrator, nor any of its affiliates, shall be indemnified against any Loss (or any expenses incident to such Loss) caused by the Administrator's or its affiliates' own willful misfeasance, bad faith, negligence or reckless disregard in the performance of the Administrator's activities under the Administration Agreement or a material breach by the Administrator of the Administration Agreement.

### **THE LEVERAGE INSTRUMENT COUNTERPARTY**

Barclays Bank PLC is a public limited company registered in England and Wales under number 1026167. The liability of the members of Barclays Bank PLC is limited. It has its registered head office at 1 Churchill Place, London, E14 5HP. Barclays Bank PLC was incorporated on 7 August 1925 under the Colonial Bank Act 1925 and on 4 October 1971 was registered as a company limited by shares under the Companies Act 1948 to 1967. Pursuant to The Barclays Bank Act 1984, on 1 January 1985, Barclays Bank was re-registered as a public limited company and its name was changed from "Barclays Bank International Limited" to "Barclays Bank PLC."

Barclays Bank PLC and its subsidiary undertakings (taken together, the "Group") is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. The whole of the issued ordinary share capital of Barclays Bank PLC is beneficially owned by Barclays PLC, which is the ultimate holding company of the Group and one of the largest financial services companies in the world by market capitalisation.



The short term unsecured obligations of Barclays Bank PLC are rated A-1+ by Standard & Poor's, P-1 by Moody's and F1+ by Fitch Ratings Limited and the long-term obligations of Barclays Bank PLC are rated AA by Standard & Poor's, Aa1 by Moody's and AA+ by Fitch Ratings Limited.

The Leverage Instrument Counterparty shall not in any way be responsible or liable to investors for (i) the accuracy or completeness of any of the representations, warranties or covenants (express or implied) made by BSAM, the Partnership or any of its affiliates or their agents in connection with the Partnership or the Leverage Instrument, or (ii) the performance of any of the obligations of, BSAM, the Partnership or any of their affiliates or their agents, in each case, in connection with the Partnership or the Leverage Instrument. Furthermore, the Leverage Instrument Counterparty makes no representations, warranties or covenants, express or implied, nor shall the Leverage Instrument Counterparty be responsible or liable, with respect to the management, or any acts or omissions, of BSAM, the Partnership or any other person in connection with the management of assets and funds under management with respect to the Partnership, or with respect to the structuring or terms of the Leverage Instrument.

The Leverage Instrument Counterparty's interests under the terms of the Leverage Instrument may be in conflict with the interests of the Limited Partners. If an Event of Default or a Termination Event occurs, as defined under the Leverage Instrument, the Leverage Instrument Counterparty's interests in terminating the Leverage Instrument might conflict with the interests of the Limited Partners, and the Leverage Instrument Counterparty will likely terminate the Leverage Instrument without regard to the interests of investors. Limited Partners shall have no direct or indirect right of action or recourse, in connection with, or arising out of, the Leverage Instrument or against the Leverage Instrument Counterparty for any matters related to the Partnership or otherwise.

The Leverage Instrument Counterparty is not responsible for the preparation of this Memorandum or the activities of the Partnership or the Master Fund and therefore accepts no responsibility for any information contained in this Memorandum other than the information set out in this section entitled "Leverage Instrument Counterparty".

The Leverage Instrument Counterparty is structuring, negotiating and executing the Leverage Instrument as principal, for and on its own behalf. The Leverage Instrument Counterparty will not be acting as advisor, fiduciary or in any capacity for or on the Partnership's behalf with respect to any matter involving the Leverage Instrument or otherwise. The Leverage Instrument Counterparty will not initially or at any time during the term of the Leverage Instrument provide any investment advice to the Partnership.

The Leverage Instrument Counterparty has not and will not recommend the Leverage Instrument as suitable or appropriate for the Partnership with respect to the Partnership's investment and trading strategies. The Leverage Instrument Counterparty has not provided the Partnership with any tax or other financial advice involving the Leverage Instrument or otherwise.

## FEES AND EXPENSES

The following is a summary of the Partnership's fees and expenses:

### Organizational and Initial Offering Costs

The Master Fund will pay the expenses of organizing the Partnership, the Master Fund and the Offshore Enhanced Leverage Feeder Fund and the initial offering of Interests and shares of the Offshore Enhanced Leverage Feeder Fund. Such expenses are being amortized on a straight-line basis over a period of not less than 60 months, beginning as of the commencement of operations of the Master Fund unless the Master Fund Directors decide that some other amortization method shall be applied. The Partnership will bear, as an investor in the Master Fund, its *pro rata* share of all such organizational expenses. The Master Fund Directors believe that such amortization is more equitable than requiring the initial investors of the Partnership and the Offshore Enhanced Leverage Feeder Fund to bear all such organizational expenses as would otherwise be required under GAAP. If such divergence from GAAP would be cause for qualification in any opinion given to the Partnership by its auditors, the Master Fund Directors will not permit such amortization, but may agree to other arrangements to similar equitable effect. If such arrangements are not feasible, the initial investors in the Partnership will likely bear a greater portion, if not all, of such organizational expenses.

NOT TO BE DISTRIBUTED TO CLIENTS

#### Advisory Fee

The Partnership will pay to the General Partner an advisory fee (the “Advisory Fee”) equal to 1/12 of 2.0% of the balance of each Limited Partner’s Capital Account calculated as of the end of each calendar month (pro rated for periods of less than one month) prior to any accrual for or payment of any Advisory Fee, allocation of Profit Share or withdrawal effected on such date (approximately a 2.0% annual rate). The Advisory Fee is payable in arrears as of the last Business Day of each calendar quarter or upon the withdrawal of a Limited Partner from the Partnership. The General Partner will be entitled to the Advisory Fee regardless of the performance of the Partnership. The General Partner may, in its sole discretion, waive all or a portion of the Advisory Fee due to the General Partner from any Limited Partner.

#### Operational Costs

The Partnership will bear its operational expenses, including (without limitation) research expenses; legal fees; expenses of the continuous offering of Interests, including the cost of producing and distributing offering memoranda and other marketing materials; printing and mailing costs; filing fees and expenses; accounting, audit, and tax preparation expenses; computer software, licensing, programming and operating expenses; data processing costs; consultant fees; tax, litigation, and extraordinary expenses, if any; interest expenses (including interest due to repurchase agreements and borrowing by the Partnership); insurance expenses; custody fees, bank charges, brokerage commissions (including options trades); spreads and mark-ups on securities, swaps and forwards; short dividends, currency hedging costs, if any, and other investment and operating expenses. In addition, the Partnership will bear the costs associated with the Leverage Instrument, including the accrual of a financing charge of 1-month USD LIBOR plus up to 1.20% per annum, compounding monthly.

The Partnership will also bear, as an investor in the Master Fund, its *pro rata* share of the Master Fund’s operational expenses, including, without limitation, interest expenses (including interest due to repurchase agreements and borrowing by the Master Fund); insurance expenses, custody fees, bank charges, brokerage commissions (including options trades); spreads and mark-ups on securities, swaps and forwards, short dividends, currency hedging costs, and other investment and operating expenses, the fees and out-of-pocket expenses of the Administrator and the Master Fund’s board of directors. The Investment Manager and the Administrator will each bear the costs of providing their respective services to the Partnership and the Master Fund, including their general overhead, salary, and office expenses.

#### Administration Fees

The Partnership will pay its *pro rata* share of an annual fee payable to the Administrator on a monthly basis at the Master Fund level. The Administrator will perform accounting, investor servicing and tax services to the Master Fund, the Partnership and the Other Feeder Funds. The Administrator’s fees for accounting will generally equal 0.10% of the Master Fund’s Net Asset Value, subject to certain adjustments made on the basis of the leverage in the Master Fund and subject to such minimum fees as may be agreed between the Master Fund and the Administrator. The Administrator’s fees for investor servicing and tax services will be based on the total number of investors in the Partnership and Other Feeder Fund, subject to such minimum fees as may be agreed between the Master Fund and the Administrator. The Administration fees will be calculated and accrued monthly based on the Master Fund’s month-end Net Asset Value and is payable monthly in arrears on the last Business Day of each month.

### Selling Commissions

Bear Stearns and certain other members of The Bear Stearns Group, to the extent they act as Placement Agents to the Partnership, will be compensated by the General Partner with payments based upon a percentage of the General Partner's Advisory Fee and/or Profit Share. Certain non-affiliated Placement Agents may be paid up to 3% of an investor's subscription price for Interests. Such commission may be waived or reduced by any such Placement Agent in respect of particular investors.

### Waiver; Rebates

The General Partner in its discretion may waive or rebate part or all of the Advisory Fee or Profit Share in the case of certain Limited Partners. Such waiver or rebate will have no adverse effect on any other Limited Partner. No such waiver or rebate shall entitle any other Limited Partner to a waiver or rebate. Investments in the Partnership by the Investment Manager, certain Bear Stearns Entities, and their respective employees and other related persons may not be subject to all or a portion of the Advisory Fees or any Profit Share.

## **BROKERAGE PRACTICES**

The Master Fund has appointed Bear, Stearns Securities Corp. ("BSSC") as the Master Fund's prime broker and custodian (in such capacities, respectively, the "Prime Broker" and "Custodian") pursuant to a Prime Broker and Custodian agreement (the "Prime Brokerage Agreement"). BSSC is a wholly-owned subsidiary of Bear Stearns, an indirect wholly-owned subsidiary of BSC and an affiliate of the General Partner.

BSSC and, as applicable, other members of The Bear Stearns Group will provide certain clearing (including prime brokerage), margin financing and stock lending services with respect to the Master Fund's securities and cash carried on the books of BSSC. BSSC or an affiliate entity, as applicable, may earn interest on debit balances in the Partnership's accounts resulting from margin loans to the Partnership. Such services and facilities will be provided pursuant to a series of mutually acceptable agreements (the "Customer Documents") and may include an Institutional Account Agreement with The Bear Stearns Group containing provisions in compliance with the laws, rules and regulations of the United States Securities and Exchange Commission and other exchanges and dealer associations by which The Bear Stearns Group is regulated (collectively, the "U.S. Rules"). For the avoidance of doubt, the Institutional Account Agreement shall apply to the Master Fund's securities and cash carried on the books of BSSC but shall not apply to any assets where beneficial title is transferred to a Bear Stearns Entity (including, but not limited to, transactions under a Master Repurchase Agreement) or to assets transferred to a Bear Stearns Entity to serve as collateral in connection with principal transactions (including, but not limited to, activities covered by master agreements such as ISDA agreements, etc.). The Partnership is not committed to continue its prime brokerage relationship with BSSC for any minimum period and may in the future use more than one prime broker. BSSC or an affiliated entity or unit thereof (including Bear Stearns) may also execute orders to the extent permitted by applicable regulations and receive commissions, fees and other compensation in connection therewith.

BSSC, as Prime Broker and/or Custodian, may appoint sub-custodians, including other Bear Stearns Entities, of the Master Fund's cash and securities. BSSC will exercise reasonable skill, care and diligence in the selection of any such sub-custodian(s), will be responsible to the Master Fund for the duration of the sub-custody agreement(s) for satisfying itself as to the ongoing suitability of such sub-custodian to provide custodian services to the Master Fund, will maintain what it considers to be an appropriate level of supervision over such sub-custodian and will make appropriate inquiries periodically to confirm that the obligations of such sub-custodian(s) continue to be competently discharged.

The Master Fund may also enter into principal transactions with one or more Bear Stearns Entities. As security for the payment and performance of all liabilities and obligations of the Master Fund to BSSC and to each other Bear Stearns Entity with which the Master Fund engages in transactions, all assets of the Master Fund held by or through BSSC and any other Bear Stearns Entity will be charged with and subject to a lien in their favor and will therefore constitute collateral security for the Master Fund's liabilities and obligations to BSSC and to each other Bear Stearns Entity.

NOT TO BE DISTRIBUTED TO CLIENTS

The Master Fund will have rights against BSSC for the return of all Master Fund assets held by it as Prime Broker and/or Custodian of the Master Fund, net of any obligations of the Master Fund to BSSC or any other Bear Stearns Entity, except for assets held by a Bear Stearns Entity as margin. In accordance with the U.S. Rules, all fully-paid and "excess margin" securities and net cash balances not required for the settlement of transactions (collectively, "Segregated Assets") may not be used by BSSC or by any other Bear Stearns Entity for its own purposes, but such Segregated Assets remain subject to the charge and lien to secure the Master Fund's liabilities and obligations to BSSC and to any other Bear Stearns Entities. (In accordance with U.S. Rules, the term "excess margin" means margin securities in excess of 140% of the amount of the margin indebtedness.)

Master Fund assets that are held by BSSC as Prime Broker and/or Custodian will be carried in the name of the Master Fund and beneficial ownership in the name of the Master Fund will be recorded on the books of BSSC. In accordance with applicable U.S. Rules, the Master Fund's assets that are not Segregated Assets may be borrowed, lent or otherwise used by BSSC and other Bear Stearns Entities as may hold such assets for their own purposes. Master Fund assets held by a Bear Stearns Entity as collateral for principal transactions between the Master Fund and such Bear Stearns Entity are not treated as Segregated Assets.

To the extent of applicable U.S. Rules, securities and cash held in customers' accounts will not be available to the non-customer creditors of BSSC or of any other Bear Stearns Entity, but all securities and cash held in customers' accounts at BSSC would be distributed *pro rata* among customers if there were to be an insolvency of BSSC, there were not sufficient customer assets to pay all customers in full and if BSSC's insurance were insufficient to cover any shortfall in customer assets.

Certain of the Master Fund's assets may be held at Bear Stearns International Limited ("BSIL"). Any of the Master Fund's investments or cash recorded on the books of BSIL as belonging to the Master Fund will be held in accordance with applicable rules and regulations of the Financial Services Authority. If permitted thereunder, all such investments of the Master Fund may be borrowed, lent or otherwise used by BSIL for its own purposes and the Master Fund will have the right against BSIL for the return of equivalent assets. The Master Fund would rank as an unsecured creditor in relation thereto and, in the event of the insolvency of BSIL, the Master Fund may not be able to recover equivalent assets in full.

Neither BSSC nor any other Bear Stearns Entity will be liable for any loss to the Master Fund resulting from any act or omission in relation to the services provided under the terms of the Customer Documents unless such loss results directly from the negligence, bad faith, willful misfeasance of BSSC or other Bear Stearns Entity, but in no event is BSSC or any other Bear Stearns Entity liable for consequential or other types of special damages. Neither BSSC nor any other Bear Stearns entity will be liable for losses to the Master Fund caused by the insolvency, acts or omissions of any sub-custodian or other third party by whom or in whose control any of the Master Fund's investments or cash may be held (subject to the obligations regarding the selection and ongoing suitability of such sub-custodian or third party as set out above). BSSC accepts the same level of responsibility for nominee companies controlled by it as for its own acts. The Master Fund has agreed to indemnify BSSC and the other Bear Stearns Entities against any loss suffered by, and any claims made against, them to the extent set forth in the Customer Documents.

Neither BSSC nor any other Bear Stearns Entity will have any involvement in the management of the Master Fund or any decision-making discretion relating to the Master Fund's investments. Neither BSSC nor any other Bear Stearns Entity has any responsibility for monitoring whether investments by any investment manager or advisor are in compliance with any internal policies, investment goals or limitations of the Master Fund, and neither BSSC nor any other Bear Stearns Entity will be responsible for any losses suffered by the Master Fund.

BSSC is registered with and regulated by the Securities and Exchange Commission in the United States. BSIL is regulated by the Financial Services Authority in the United Kingdom. BSC has a credit rating of A-1 by Standard & Poor's, and P1 by Moody's for its short-term debt, a credit rating of A by Standard & Poor's for its long term debt and a credit rating of A2 by Moody's for its long term debt. BSSC is separately rated A-1 for short term debt and single A+ for long term debt by Standard & Poor's.

The Bear Stearns Entities and the Master Fund each reserve the right to change the arrangements described above by agreement between them, and the Bear Stearns Entities have certain rights to modify such arrangements on notice to

the Master Fund. The Master Fund may, in its discretion, terminate the arrangements described above in accordance with the Customer Documents. BSSC and each other Bear Stearns Entity reserve the right not to clear transactions and not to provide any of the services (including prime brokerage) described above if the provision of such services or the clearing of transactions presents a risk unacceptable to them and reserve the right to terminate the arrangements in accordance with the provisions of the Customer Documents.

BSSC and the other Bear Stearns Entities are service providers and are not responsible for the preparation of this document or the activities of the Master Fund and therefore accept no responsibility for the accuracy of any information contained in this document.

The Investment Manager may, in its discretion, appoint additional or alternative prime broker(s) and custodian(s).

## **WITHDRAWALS, DISTRIBUTIONS AND ASSIGNMENTS**

### **Withdrawals**

Prior to the completion of the winding up of the Partnership, no Limited Partner shall have the right to withdraw, or receive any return of, any portion of any of such Limited Partner's capital contribution(s) to, or Capital Account in, the Partnership except as discussed in this section.

Subject to the conditions and limitations described herein, (i) a Limited Partner may, upon not less than 40 days' prior written notice to the General Partner, withdraw all or a portion of such Limited Partner's Capital Account as of the last Business Day of any calendar month, subject to a withdrawal fee of 2% of the amount withdrawn unless such withdrawal fee is reduced or waived by the General Partner in its sole discretion and (ii) a Limited Partner may, upon not less than 60 days' prior written notice to the General Partner, withdraw all or a portion of such Limited Partner's Capital Account attributable to a capital contribution as of the last Business Day of the twelfth month-end following such capital contribution and every subsequent third month-end following the first year anniversary of such capital contribution without being subject to any withdrawal fee (each such date, a "Withdrawal Date").

For example, with respect to a capital contribution made as of August 1, 2006, the Limited Partner may first withdraw all or part of its Capital Account attributable to such capital contribution without being subject to a withdrawal fee as of July 31, 2007 (*i.e.*, the twelfth month-end following such capital contribution) and thereafter, as of the last Business Day of each October, January, April and July, so long as sufficient funds remain in its Capital Account that are attributable to such capital contribution.

Limited Partners that, on the initial closing date of the Partnership, exchanged interests in Bear Stearns High-Grade Structured Credit Strategies Fund, L.P. (the "U.S. High-Grade Fund") for Interests ("Exchange Interests"), will be credited with the time they were invested in the U.S. High-Grade Fund for the purposes of determining the application of the withdrawal fee described above. With respect to any Limited Partner that made capital contributions to the U.S. High-Grade Fund at different times and continues at the time of exchange to be subject to different lock-up periods (*i.e.* the period during which no withdrawal may be made without being subject to a withdrawal fee) applicable to such contributions, such lock-up period will apply to such Limited Partner's Exchange Interests on a *pro rata* basis.

Notwithstanding the foregoing, in respect of Exchange Interests acquired in exchange for interests in the U.S. High-Grade Fund purchased before September 1, 2004, a Limited Partner may; (i) upon not less than 40 days' prior written notice to the General Partner, withdraw all or a portion of such Limited Partner's Capital Account attributable to such Interests as of the last Business Day of any calendar month subject to a withdrawal fee of 1% of the amount withdrawn, unless such withdrawal fee is reduced or waived by the General Partner in its sole discretion, and (ii) upon not less than 60 days' prior written notice to the General Partner, withdraw all or a portion of its Capital Account attributable to such Interests as of the last Business Day of any calendar quarter without being subject to any withdrawal fee.

Partial withdrawals may not reduce a Limited Partner's Capital Account to less than the minimum investment of \$1,000,000, unless such minimum is reduced or waived by the General Partner in its sole discretion.

If a Limited Partner makes capital contributions at different times, each capital contribution will be treated separately for the purpose of determining any applicable withdrawal fee, and withdrawals will be deemed to be made from the earliest capital contribution (as adjusted for changes in the Net Asset Value). The withdrawal fees described above are payable to the Partnership and are intended generally to cover anticipated expenses relating to the liquidation of Master Fund assets required to fund the relevant withdrawals, including “breakage costs”. The General Partner may reduce or waive such withdrawal fees for any Limited Partner to the extent that it determines in its sole discretion that the Partnership will not incur such expenses or that the Partnership will not otherwise be materially disadvantaged by such reduction or waiver. The General Partner, however, will in no event be obligated to reduce or waive such withdrawal fees, including when there are no such expenses.

The General Partner may permit withdrawals on such shorter notice or on any date other than a Withdrawal Date (such withdrawals to be made on the basis of estimated Net Asset Values) in its sole and absolute discretion.

If, for any calendar quarter, the aggregate amount of withdrawal requests from the Partnership, together with redemption requests from the Other Feeder Funds, exceeds in value 25% of the net asset value of the Master Fund, determined as of the beginning of such calendar quarter and as adjusted for subscriptions during such calendar quarter, the General Partner (in such capacity and as investment manager or sponsor of the Other Feeder Funds) may elect to limit such withdrawals and redemptions to an aggregate value of not more than 25% of the net asset value of the Master Fund, allocating such withdrawals and redemptions *pro rata* according to the value of each withdrawing Limited Partner’s Capital Account prior to its withdrawal request and the value of the shares/units of each redeeming investor of the Other Feeder Funds prior to its redemption request. Any unhonored portion of a withdrawal request will remain invested in the Partnership, and will be deferred to the next Withdrawal Date subject to the same limitation.

Withdrawal requests must be submitted in writing, delivered by messenger, mail, or facsimile. Withdrawal requests may not be submitted by electronic mail.

All distributions may be made in cash or other property, or any combination thereof, as may be determined by the General Partner (or by the liquidator, in the case of a distribution made in connection with the winding up of the Partnership). Subject to its assessment of the activity and condition of the relevant market and general financial and economic conditions, the General Partner (or the liquidator) shall use its reasonable efforts to cause the Partnership to make distributions in the form of cash.

Withdrawal proceeds (based on unaudited data) will generally be paid within 30 days of the relevant Withdrawal Date. However, upon a complete withdrawal of a Limited Partner, the General Partner will, after applying all charges and credits properly allocable to such Limited Partner’s Capital Account, cause the Partnership to distribute to such Limited Partner 90% of the withdrawal proceeds within 30 days of the relevant Withdrawal Date, and the balance (based on unaudited data), without interest, will be paid within 60 days of such Withdrawal Date. Any amount subject to the foregoing “hold-back” will not remain subject to the profit/loss of the Partnership following the Withdrawal Date. The General Partner may waive the foregoing hold-back provisions in its sole and absolute discretion and permit the withdrawal of any Limited Partner to be made generally within 30 days of the effective date of withdrawal. Upon certain circumstances, the General Partner may limit or suspend withdrawals and/or delay payment of withdrawal proceeds to withdrawing Limited Partners.

Capital Withdrawals will be made on the basis of estimated Net Asset Values. The Partnership Agreement provides that the General Partner will have no obligation to attempt to make adjustments to estimated payments to reflect final audited numbers. If, after payment of Capital Withdrawal proceeds, the General Partner determines that adjustment to the Net Asset Value as of any Withdrawal Date is necessary, the withdrawing Limited Partner (if the Net Asset Value is adjusted upwards) or the remaining Limited Partners (if the Net Asset Value is adjusted downwards) will bear the risk of such adjustment. The withdrawing Limited Partner will neither receive proceeds from, nor will it be required to reimburse, the Partnership in such circumstances.

Generally, no interest will be paid by the Partnership on withdrawn amounts pending distribution to Limited Partners. However, a Limited Partner may be credited with interest in respect of payments deferred to the extent that doing so would, in the General Partner’s sole and absolute discretion, be equitable.

In its discretion, the General Partner may hold back a portion of the withdrawal proceeds payable to a Limited Partner in respect of withdrawn Interests (whether such redemption is voluntary or compulsory) to satisfy estimated or accrued expenses, contingencies or liabilities. The amount held back is in the General Partner's discretion.

#### **Compulsory Withdrawals**

The General Partner may compel a Limited Partner to withdraw entirely from the Partnership, or to withdraw any portion of such Limited Partner's Capital Account, at any time without notice, if the General Partner reasonably believes that such Limited Partner subscribed for an Interest as a result of a misrepresentation or if such Limited Partner's continued participation in the Partnership would, in the reasonable judgment of the General Partner, put the Partnership or the other Limited Partners at a material tax, legal, regulatory, or pecuniary disadvantage including, by way of example and not limitation: (i) causing the Partnership to be required to be registered or regulated under the Company Act; (ii) causing the Partnership to be an association or "publicly traded partnership" taxable as a corporation for U.S. federal income tax purposes; (iii) causing the assets of the Partnership to be deemed to be "plan assets" for purposes of ERISA or Section 4975 of the Code; (iv) causing the Partnership to be registered under the Exchange Act, or the offering of its Interests registered under the Securities Act; (v) causing the General Partner to be required to be registered with the CFTC as a "commodity pool operator" and become a member of the NFA (if the General Partner is not then so registered and/or such a member); (vi) causing a violation under any law or any contractual provision to which the Partnership or its property or the General Partner is subject; or (vii) causing the Partnership to be in violation of (in the reasonable judgment of the General Partner), to potentially violate or otherwise cause concerns under, the anti-money laundering program and related responsibilities of the Partnership or the General Partner. In addition to the foregoing, the General Partner may compel a Limited Partner to withdraw entirely from the Partnership, or to withdraw any portion of such Limited Partner's Capital Account, at any time upon 90 days' prior written notice if such Limited Partner's continued participation in the Partnership would, in the reasonable judgment of the General Partner, put the Partnership or the other Limited Partners at a material administrative disadvantage; provided that the General Partner may not so terminate the participation of a Limited Partner during the pendency of a Removal Petition as defined in the Partnership Agreement. No such mandatory withdrawal shall give rise to any claim or cause of action by any Limited Partner.

#### **Suspension of Withdrawals and Payment of Proceeds**

The General Partner may suspend the determination of Net Asset Value, limit or suspend withdrawals and/or delay payment of withdrawal proceeds: (a) when any securities exchange, board of trade, or organized inter-dealer market on which a significant portion of the Partnership's assets is regularly quoted or traded is closed (other than for holidays) or trading thereon has been restricted or suspended; (b) whenever, as a result of events, conditions, or circumstances beyond the control or responsibility of the Partnership, disposal of the assets of the Partnership or other transactions in the ordinary course of the Partnership's business involving the sale, transfer, delivery, or withdrawal of securities or funds is not reasonably practicable; (c) if it is not reasonably practicable to determine the Net Asset Value on an accurate and timely basis; or (d) during any period when the Partnership has insufficient liquid assets to make payment to those Limited Partners that have requested withdrawals. Any such suspension shall take effect at such time as the General Partner shall declare, and thereafter there will be no determination of the Net Asset Value of the Partnership or any withdrawals or payment of withdrawal proceeds, until the General Partner declares the suspension at the end, except that such suspension shall terminate in any event on the first business day on which (i) the condition giving rise to the suspension will have ceased to exist and (ii) no other condition under which suspension is authorized will exist. In the event withdrawals are limited rather than suspended, withdrawal payments will be made pro rata with respect to each Limited Partner requesting to withdraw.

The determination of the General Partner shall be conclusive. Notice of any limitation or suspension will be given to any Limited Partner who has submitted a withdrawal request and to whom full payment of the withdrawal proceeds has not yet been remitted. If a withdrawal request is not withdrawn by a Limited Partner following notification of a suspension, the withdrawal will be completed as of the next month-end following the end of the suspension.

The Master Fund has comparable ability to suspend redemptions of the Partnership's shares in the Master Fund.

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### **Distributions**

The General Partner may, at any time or from time to time, but shall be under no obligation to, cause the Partnership to make a distribution to the Partners *pro rata* in accordance with their Capital Accounts as of the beginning of the Accounting Period in which such distribution is made. The General Partner does not intend to cause the Partnership to make any such distributions.

### **Assignments**

No Limited Partner may transfer (whether by sale, assignment, gift, exchange, pledge, mortgage, or hypothecation, or any other conveyance, disposition, or encumbrance, or any swap or other derivative transaction based on the value or change in value of an Interest, whether voluntary or involuntary) an Interest (or any interest therein) unless such transfer arises by operation of law or has been expressly approved by the General Partner. The General Partner may withhold such approval in its sole and absolute discretion or may grant such approval on such terms and subject to such conditions as the General Partner may determine.

Prior to the admission to the Partnership, as a Limited Partner, of a person to whom an Interest (or interest therein) has been transferred, such person (an "Assignee") shall be entitled to share in such profits and losses, to receive such distributions, and to receive such allocations of items of the Partnership's income, gain, deduction, loss and credit, as the transferor would have been entitled to share and receive in respect of the Interest (or interest therein) so transferred, but shall not be entitled to become a Limited Partner or to exercise any of the other rights, powers, or authority of a Limited Partner. No Assignee shall be admitted to the Partnership as a Limited Partner unless such admission is approved by the General Partner. The General Partner may withhold such approval in its sole and absolute discretion or may grant such approval on such terms and subject to such conditions as the General Partner may determine.

If a Limited Partner desires to transfer an Interest (or an interest therein), such Limited Partner shall be responsible for compliance with all conditions of transfer imposed by the Partnership Agreement and under applicable law and any expenses incurred by the Partnership for legal and/or accounting services in connection with reviewing the transfer or obtaining legal opinions in connection therewith. Upon the request of the General Partner, a Limited Partner desiring to transfer an Interest (or an interest therein) shall either cause the Partnership to be provided with, or authorize the Partnership to obtain, an opinion of counsel satisfactory to the General Partner that the proposed transfer complies with the Securities Act and any applicable state securities laws.

### **ALLOCATION OF PROFIT AND LOSS**

This section of the Memorandum describes lengthy and detailed accounting provisions of the Partnership Agreement, a copy of which accompanies this Memorandum and is incorporated herein by this reference. The following description is a summary only, is not intended to be complete, and is qualified in its entirety by such reference.

### **Partnership Accounting**

The General Partner shall cause the Partnership to establish and maintain for each Partner (including the General Partner) a capital account ("Capital Account").

The balance in a Partner's Capital Account as of the beginning of each Accounting Period is referred to as the "Opening Balance" of such Capital Account for such Accounting Period, and the balance in a Partner's Capital Account as of the end of each Accounting Period is referred to as the "Closing Balance" of such Capital Account for such Accounting Period.

The Opening Balance of a Partner's Capital Account as of the beginning of the first Accounting Period in which a capital contribution is credited to such Capital Account shall equal the amount of such contribution. The Opening Balance of a Partner's Capital Account as of the beginning of each subsequent Accounting Period shall equal the Closing Balance of such Capital Account as of the end of the immediately preceding Accounting Period, increased



by any additional capital contribution credited to such Capital Account as of the beginning of such Accounting Period and reduced by any Capital Withdrawals distributed from such Capital Account as of the beginning of such Accounting Period.

The Closing Balance of a Partner's Capital Account as of the end of an Accounting Period shall be equal to the Opening Balance of such Capital Account as of the beginning of such Accounting Period, adjusted in the following manner:

- first, any increase or decrease in Net Asset Value (determined prior to accrual of any Advisory Fees payable to the General Partner) for such Accounting Period shall be credited or debited (as the case may be) to such Opening Balance, *pro rata* in accordance with the Partnership Percentage associated with such Capital Account as of the beginning of such Accounting Period;
- second, to the extent that the General Partner is entitled to receive any Advisory Fee in respect of such Capital Account as of the end of such Accounting Period, the amount thereof shall be debited against such Opening Balance and paid to the General Partner, not as an allocation to the General Partner's Capital Account (unless the General Partner so determines), but as a payment made to a third-party service provider;
- third, to the extent that a Profit Share in respect of such Capital Account is required to be credited to the General Partner's Capital Account as of the end of such Accounting Period, the amount thereof shall be debited against such Opening Balance and credited to a new profit memo account (the "New Profit Memo Account"), established solely for bookkeeping purposes in connection with the allocation of Profit Share.

An "Accounting Period" shall (a) begin on the day after the close of the preceding Accounting Period and (b) end on the earlier of the close of the fiscal year of the Partnership, the effective date of any resignation or expulsion of a Partner, the effective date of any transfer of an Interest, the day preceding the effective date of any capital contribution or Capital Withdrawal, or such other day as may be determined by the General Partner. Initially, the General Partner intends to designate each calendar month-end as the close of an Accounting Period. "Partnership Percentage" associated with a Partner's Capital Account as of the beginning of an Accounting Period, means the percentage determined by dividing the Opening Balance of such Capital Account at such time by the Opening Balances of all Capital Accounts and the New Profit Memo Account at such time. The sum of the Partnership Percentages associated with all Capital Accounts shall at all times equal 100%.

#### **Determination of Net Asset Value**

Net asset value ("Net Asset Value") shall be determined as of the end of each Accounting Period and means the value of the Partnership's assets less the amount of its liabilities, in each case determined in accordance with GAAP (except in respect of organizational costs) and the valuation principles set forth in the Partnership Agreement. For this purpose, liabilities include accrued liabilities irrespective of whether such liabilities may in fact never be paid. In addition, for purposes of determining the amount of the Partnership's liabilities, the General Partner may estimate expenses that are incurred on a regular or recurring basis over yearly or other periods and treat the amount of any such estimate as accruing in equal proportions over any such period and establish such reserves for the Partnership for contingent, unknown or unfixed debts, liabilities or obligations of the Partnership as the General Partner may reasonably deem advisable.

The General Partner may determine to treat any liability or expenditure of the Partnership that becomes fixed or is incurred in an Accounting Period subsequent to the Accounting Period to which such liability or expenditure relates (the "prior Accounting Period") as either (i) arising in the Accounting Period in which such liability becomes fixed or such expenditure is incurred or (ii) arising in such prior Accounting Period, in which case such liability or expenditure shall be charged to persons who were Partners during such prior Accounting Period (whether or not such persons are Partners during the Accounting Period in which such liability is fixed or such expenditure is incurred) in accordance with the Partnership Percentages associated with their Capital Accounts as of the beginning of such prior Accounting Period, and the Partnership shall be entitled to collect from such persons the amounts so

charged to them (with interest thereon accruing from the time such persons received the related distributions, at a floating rate determined by the General Partner in its reasonable discretion).

The Partnership's assets shall be valued in accordance with the following principles unless GAAP requires otherwise:

- Assets listed or traded on a stock exchange or over-the-counter market (other than derivatives, as referred to below) for which market quotations are readily available will be valued at the official close of business price on the principal exchange or market for such investment, *provided* that the value of any investment listed on a stock exchange or over-the-counter market but acquired or traded at a premium or at a discount outside or off the relevant stock exchange or on an over-the-counter market, and securities which are not listed on a recognized securities exchange, may be valued at the mean of their "bid" and "ask" prices as quoted by each of three (or, if three are not reasonably available, two) recognized broker-dealers for such assets as at the date of valuation of the investment. If for specific assets the official close of business prices do not, in the opinion of the General Partner or its designee, reflect their fair value or are not available, the value shall be calculated with care and in good faith by the General Partner or its designee with a view to establishing the probable realization value for such assets as at the close of business on the valuation date.
- If the assets are listed or traded on several stock exchanges or over-the-counter markets, the official close of business price on the stock exchange or over-the-counter market which, in the opinion of the General Partner or its designee, constitutes the main market for such assets will be used.
- Cash and other liquid assets will be valued at their face value with interest accrued, where applicable.
- Exchange traded derivative instruments will be valued at the settlement price for such instruments on such market; if such price is not available such value shall be the probable realization value estimated with care and in good faith by the General Partner or its designee. Over-the-counter derivative instruments will be valued on each valuation date at the settlement price independently confirmed by the General Partner or its designee with the counterparty or by commercial pricing models which may be obtained from an affiliate of the General Partner. Open forward foreign exchange contracts shall be valued with reference to the prevailing forward foreign exchange rates, which the General Partner or its designee deems appropriate in the circumstances. Closed-out forward foreign exchange contracts that have not yet reached the maturity date will have locked-in a fixed currency gain or loss. This fixed currency amount shall be revalued at the same spot exchange rates used for other assets.
- Short-term money market instruments and bank deposits shall be valued at cost plus accrued interest to the date of valuation.
- If at the end of any Accounting Period, the exchange or market herein designated for the valuation of any given asset is not open for business, the valuation of such asset shall be determined as of the last preceding date on which such exchange or market was open for business. If a security or commodity interest could not be liquidated on the valuation date, due to the operation of daily limits or other rules of the exchange or market designated for the valuation thereof, the settlement price on the first subsequent day on which the security or commodity interest could be liquidated shall be the basis for determining the value thereof for that day, or such other value as the General Partner or its designee may deem fair and reasonable.
- There is no active market for Repackaging Vehicle Junior Interests. The Investment Manager will use a fair-value methodology for determining the value of Repackaging Vehicle Junior Interests. This methodology will consist of taking the present value of the future stream of projected cash flows to the Repackaging Vehicle Junior Interests over the projected life of the Repackaging Vehicle. The discount rate used in this analysis will be determined primarily by assessing the credit quality of the collateral pool of the Repackaging Vehicle.
- The foregoing valuations may be modified by the General Partner or its designee, in its sole and absolute discretion, if and to the extent that it shall determine that such modifications are advisable in order to reflect restrictions upon marketability or other factors affecting the value of assets or to obtain asset valuations within

the time frames set by the General Partner. Without limiting the generality of the foregoing, the valuation of an asset by the General Partner or its designee may reflect the amounts invested by the Partnership in such asset, notwithstanding that such amounts may not represent the market value of such asset. The General Partner or its designee may also follow some other prudent method of valuation other than that referred to above if it considers that in the circumstances such other method of valuation should be adopted to reflect fairly the values of relevant investments or liabilities or to otherwise protect the interests of the Limited Partners. The General Partner is entitled to exercise its reasonable judgment in determining the values to be attributed to assets and liabilities and provided it is acting bona fide in the interest of the Partnership as a whole, such valuation is not open to challenge by current or previous investors. All good faith determinations of value by the General Partner or its designee shall be final and conclusive as to all Partners.

So long as the Partnership gains exposure to the Master Fund through the Leverage Instrument, the General Partner will value the Leverage Instrument as though it represented a direct leveraged investment in the Master Fund. For the purposes of the Leverage Instrument, the Leverage Instrument will be valued by the Leverage Instrument Counterparty as calculation agent under the terms of the Leverage Instrument. The value of the Leverage Instrument will be determined in large part by the net asset value per share of the Master Fund. Generally, the net asset value per share of the Master Fund will be the amount reported by the administrator to the Master Fund, however, the Leverage Instrument Counterparty may adjust such value based on its commercially reasonable determination under certain circumstances.

Organizational expenses are being amortized on a straight-line basis over a period of not less than 60 months, notwithstanding GAAP. Any opinion given to the Partnership by its auditors may be qualified with respect to the divergence of this amortization schedule from GAAP.

Prospective investors should be aware that situations involving uncertainties as to the valuation of portfolio securities could dramatically affect the Partnership's Net Asset Value and the Profit Share if the General Partner's or its designee's judgments regarding appropriate valuations should prove incorrect.

All matters concerning valuation, as well as accounting procedures, not expressly provided for in the Partnership Agreement may be determined by the General Partner, whose determination is final and conclusive as to all Limited Partners.

*As a significant portion of the Partnership's portfolio is likely to be executed through and maintained with a Bear Stearns Entity, prospective investors should understand that Bear Stearns Entities may value a substantial portion of such portfolio, which valuation will be made in accordance with the foregoing provisions. See "Conflicts of Interest".*

#### **Special Allocations**

Certain items of Partnership profits and losses are specially allocated only to certain Limited Partners, not all the Limited Partners as a group. Typically, special allocations result from regulatory or legal requirements prohibiting certain types of investors from participating (even indirectly through investing in the Partnership) in certain types of transactions.

#### **Profit Share**

The General Partner will also be allocated a profit share ("Profit Share") at the end of the relevant Accounting Period (as defined herein) in an amount equal to 20% of Net New Income in respect of each Limited Partner's Capital Account. The Profit Share will be allocable with respect to each Limited Partner's Capital Account for each Accounting Period ending as of the end of each calendar year, as of the date of any withdrawal from such Capital Account (with respect to the amount withdrawn only), as of the date of any transfer of an interest in such Capital Account (with respect to the amount transferred only) and as of the date of dissolution of the Partnership.

"Net New Income" in respect of a Limited Partner's Capital Account as of a particular date is the amount, if any, by which Cumulative Net Income in respect of such Capital Account determined as of such date exceeds the High

Water Mark in respect of such Capital Account. The General Partner may, in its sole discretion, waive all or a portion of the Profit Share due to the General Partner from any Limited Partner. "Cumulative Net Income" in respect of a Limited Partner's Capital Account as of a particular date is the amount, if any, by which (1) aggregate realized and unrealized gains, and aggregate items of operating income, credited to such Capital Account during the entire life of the Partnership to and including such date exceeds (2) aggregate realized and unrealized losses, and aggregate items of operating expenses, charged against such Capital Account during the entire life of the Partnership to and including such date (without charging any of the General Partner's Profit Share against such Capital Account).

"High Water Mark" in respect of a Limited Partner's Capital Account as of a specified date means (1) zero, until after the first calculation of a positive Profit Share in respect of such Capital Account pursuant to the foregoing provisions and, thereafter, (2) the highest amount of Cumulative Net Income previously calculated in respect of such Capital Account in accordance with the foregoing provisions, in either instance, subject to reduction in the event of a withdrawal, as follows: if a withdrawal is made from a Capital Account at a time when there is a loss carryforward for such Capital Account (*i.e.*, Cumulative Net Income is below the High Water Mark), then the High Water Mark will be reduced as of the date on which such Capital Withdrawal is made, and for every Accounting Period thereafter until a positive Profit Share is calculated in respect of such Capital Account, by an amount equal to (a) the excess of such High Water Mark over the current Cumulative Net Income multiplied by (b) a fraction, the numerator of which is equal to the Net Asset Value of the Capital Account immediately before giving effect to the withdrawal.

If a Profit Share is allocated to the General Partner in respect of a Limited Partner's Capital Account and a loss is subsequently charged to such Capital Account, the General Partner is entitled to retain all Profit Shares previously allocated to it in respect of that account. No subsequent Profit Share is allocable to the General Partner in respect of such Capital Account until such loss has been made up.

#### **New Issues**

The Partnership may from time to time invest in "new issues" (*i.e.*, equity securities which are issued in an initial public offering). The Board of Governors of the NASD, Inc. (the "NASD") has published the Restrictions on the Purchase and Sale of Initial Equity Public Offerings rule (the "New Issues Rule"), which implements in part the requirement that NASD members (principally broker-dealers and investment bankers) make a bona fide public distribution at the public offering price of securities of an initial public offering (a "new issue"). The New Issues Rule restricts NASD members and their associated persons from, among other things, selling with limited exception any new issue securities to any NASD member, to any associated person of an NASD member, to any senior officer of a registered investment advisory firm, bank, savings and loan institution or insurance company, or to certain other restricted persons (collectively, "Restricted Persons"). The New Issues Rule prohibits NASD members from selling securities in a new issue to the Partnership if Restricted Persons would be allocated in aggregate more than 10% of profits or losses relating to those new issues.

The Partnership currently does not intend to allocate directly any profits or losses relating to new issues to Limited Partners who are Restricted Persons. The General Partner reserves the right, however, (but is not obligated) to change this allocation policy in the future without seeking the consent of any Limited Partners, in order to permit the allocation of new issues to all Partners more broadly, including Restricted Persons, to the extent permitted by the New Issues Rule, as it may be amended from time to time.

To the extent a Limited Partner is a collective investment vehicle, as long as such Limited Partner complies with the de minimis exemption under the New Issues Rule (*i.e.*, 10% or less of new issues profits and losses are allocated to Restricted Person investors in such Limited Partner), such Limited Partner will be treated as unrestricted for new issues allocation purposes.

#### **Tax Allocations**

As of the end of each fiscal year, Partnership income will be allocated among the Partners as follows: First, net income will be allocated to the General Partner until the amount so allocated equals the aggregate Profit Share allocated to the New Profit Memo Account for the year in question and all prior years. Second, net income will be allocated to Partners who withdrew an Interest in full during the year, to eliminate the difference between the

amount received and the Partner's adjusted tax basis in its Interest. Third, net income will be allocated to any Partner with a Capital Account balance in excess of its adjusted tax basis in its Interest. Finally, any net income not previously allocated will be allocated *pro rata* among all Partners in proportion to their respective Capital Accounts.

As of the end of each fiscal year, Partnership loss will be allocated among the Partners as follows: First, net loss will be allocated to Partners who withdrew an Interest in full during the year, to eliminate the difference between the Partner's adjusted tax basis in its Interest and the amount received upon withdrawal. Second, net loss will be allocated to any Partner with an adjusted tax basis in its Interest in excess of its Capital Account balance. Finally, any net loss not previously allocated will be allocated *pro rata* among all Partners in proportion to their respective Capital Accounts.

Notwithstanding the foregoing, the General Partner may allocate items of income, gain, loss, and deduction on a gross rather than a net basis.

Upon liquidation of the Partnership, the assets of the Partnership available for distribution pursuant to the Delaware Revised Uniform Limited Partnership Act will be distributed to each Partner in the ratio that such Partner's Capital Account bears to the Capital Accounts of all Partners.

#### **CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following is a summary (the "Summary") of some of the U.S. federal income tax consequences to the Partners of an investment in the Partnership based upon the Internal Revenue Code of 1986, as amended (the "Code"), judicial decisions, Treasury Regulations (the "Regulations") and rulings in existence on the date hereof, all of which are subject to change. A complete discussion of all federal, state and local tax aspects of an investment in the Partnership is beyond the scope of the Summary, and prospective investors must consult their own tax advisers on such matters.

\* \* \*

Any discussion of U.S. federal tax issues set forth in this Memorandum was written in connection with the promotion and marketing by the Partnership, BSAM and the Placement Agents of the transactions described in this Memorandum. Such discussion was not intended or written to be legal or tax advice to any person and was not intended or written to be used, and it cannot be used, by any person for the purpose of avoiding any U.S. federal tax penalties that may be imposed on such person. Each investor should seek advice based on its particular circumstances from an independent tax advisor.

\* \* \*

#### **Partnership Status**

The General Partner has advised Sidley Austin LLP that at least 90% of the gross income expected to be earned by the Partnership will constitute interest income, and income and gains from stocks and securities and futures, forwards and options with respect to stocks and securities. The General Partner has also advised Sidley Austin LLP that it has not elected, and does not intend to elect, to treat the Partnership as an association taxable as a corporation. Based on the foregoing, the General Partner has been advised by Sidley Austin LLP that the Partnership will be treated as a partnership, and not as an association or publicly traded partnership taxable as a corporation, for U.S. federal income tax purposes.

The Master Fund will elect to be treated as other than an association taxable as a corporation. Pursuant to such election, the Master Fund will be treated as a disregarded entity if it has only one member and a partnership if it has at least two members. The Master Fund should not be treated as a publicly traded partnership taxable as a corporation so long as at least 90% of its gross income constitutes "qualifying income" under Section 7704 of the Code and the Regulations promulgated thereunder.

No ruling has been obtained from the Internal Revenue Service ("IRS") confirming this tax treatment, and the General Partner does not intend to seek such a ruling. There can be no assurance that the IRS will not assert that the

Partnership or the Master Fund should be treated as an association taxable as a corporation or as a publicly traded partnership taxable as a corporation. If it were determined that the Partnership or the Master Fund should be treated as an association or publicly traded partnership taxable as a corporation, the taxable income of the Partnership or the Master Fund, as applicable, would be subject to corporate income tax rates, distributions (other than certain redemptions) would generally be treated as qualified dividend income (described below) to the extent of the current or accumulated earnings and profits of the Partnership or the Master Fund, as applicable, and Limited Partners would not report profits and losses of the Partnership.

The following discussion assumes that the Partnership will be treated as a partnership for U.S. federal income tax purposes.

#### **Tax Characterization and Treatment of the Leverage Instrument**

The Partnership will enter into the Leverage Instrument with the Leverage Instrument Counterparty. The Leverage Instrument references a partnership interest in the Master Fund. The Leverage Instrument Counterparty and the Partnership have agreed (in the absence of an administrative determination, judicial ruling or other authoritative guidance to the contrary) to treat, to the extent that the Leverage Instrument Counterparty hedges all or some of its risk under the Leverage Instrument by investing in shares of the Master Fund, the Partnership as the owner of a partnership interest in the Master Fund and to treat the Leverage Instrument as a debt instrument for all tax purposes.

The Leverage Instrument Counterparty, however, is not obligated to hedge its risk under the Leverage Instrument by investing in shares of the Master Fund at any time other than the effective date of the Leverage Instrument and thereafter may continue to hedge its risk or not continue to hedge its risk in its sole discretion. To the extent that the Leverage Instrument Counterparty does not continue to hedge its risk under the Leverage Instrument by remaining invested in shares of the Master Fund, the Partnership will not be treated as the owner of such shares and the Leverage Instrument will not be treated as a debt instrument. In addition, even where the Leverage Instrument Counterparty does hedge its risk under the Leverage Instrument by investing in shares of the Master Fund, because of the absence of authorities, no assurance can be given that the IRS will accept, or that a court will uphold, such tax treatments. The tax consequences to the Partners could be affected if the Partnership is unable to claim such treatments or if the IRS were successful in asserting that such treatments should not be respected for U.S. federal income tax purposes.

Prospective investors are urged to consult their own tax advisors regarding the U.S. federal income tax consequences of an investment in the Partnership and with respect to any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction. The following discussion assumes that the Partnership will be treated as the owner of a partnership interest in the Master Fund and the Leverage Instrument will be treated as a debt instrument for all tax purposes.

THE LEVERAGE INSTRUMENT COUNTERPARTY EXPRESSES NO VIEW AS TO ANY TAX POSITION TAKEN BY THE PARTNERSHIP. THE LEVERAGE INSTRUMENT COUNTERPARTY, AS A MATTER OF POLICY, DOES NOT PROVIDE TAX, ACCOUNTING OR LEGAL ADVICE TO ITS CUSTOMERS, AND HAS ADVISED THE PARTNERSHIP THAT IT MUST MAKE ITS OWN DETERMINATIONS CONCERNING THE TAX, ACCOUNTING AND LEGAL EFFECTS ON THE PARTNERSHIP AND ITS INVESTORS OF ENTERING INTO THE LEVERAGE INSTRUMENT.

#### **Taxation of Partners on Profits or Losses of the Partnership**

The Partnership and the Master Fund, as entities, will not be subject to U.S. federal income tax. The Partnership will be required to report on its U.S. federal income tax return its allocable share of the Master Fund's income, gains, losses, deductions, credits and other items for the Master Fund's taxable year ending with or within the Partnership's taxable year. Each Partner will, in turn, be required for U.S. federal income tax purposes to take into account, in its taxable year with which or within which a taxable year of the Partnership ends, its distributive share of all items of Partnership income, gain (including unrealized gain from any positions that are "marked-to-market"),

loss or deduction for such taxable year of the Partnership. A Partner must take such items into account even if the Partnership does not make any distributions of cash or other property to such Partner during his taxable year.

A Partner's distributive share of such items for U.S. federal income tax purposes generally is determined by the allocations made pursuant to the Partnership Agreement, *provided* that such allocations either have "substantial economic effect" or are deemed to be in accordance with the Partners' interests in the Partnership. Under the Partnership Agreement, allocations are generally made in proportion to Partners' Capital Accounts and therefore should have substantial economic effect. However, the tax allocations permitted by the Partnership Agreement when withdrawals occur generally will not be in proportion to Capital Accounts. Nonetheless, the General Partner believes such allocations are permitted for tax purposes, and the Regulations appear to support that belief. If such allocations are not sustained, each Partner's distributive share of the items that are the subject of such allocations would be redetermined based upon his interest in the Partnership by taking into account all relevant facts and circumstances. Such a redetermination might result in a larger share of income being allocated (solely for tax purposes) to the Partners who had not redeemed Interests during the taxable year than was allocated to them pursuant to the Partnership Agreement.

#### **Section 475(f) Election**

If the Investment Manager determines that the Master Fund is engaged in a trade or business as a trader of securities, the Investment Manager may cause the Master Fund to elect "mark-to-market" treatment under section 475(f) of the Code with respect to securities held in connection with such trade or business. If such election is made, gain or loss on securities subject to such election will be treated as ordinary income or loss and securities held on the last business day of the taxable year will be treated as if they were sold for their fair market value on such day. In addition, certain other aspects of the tax treatment described below will not apply. Any such election applies beginning in the year in which it is made and for all subsequent taxable years.

#### **Limitations on Deductibility of Partnership Losses by Partners**

The amount of any loss of the Partnership that a Partner is entitled to include in its personal income tax return is limited to its adjusted tax basis for its Interest in the Partnership as of the end of the Partnership's taxable year in which such loss occurred. Generally, a Partner's adjusted tax basis for its Interest in the Partnership is the amount paid for such Interest reduced (but not below zero) by its share of any Partnership distributions, losses and expenses (including certain expenses of the Partnership that are not properly chargeable to the Capital Account and that are not deductible in computing the Partnership's taxable income) and increased by its share of the Partnership's income, including gains.

#### **Limitations on Deductibility of Certain Expenses**

The Code provides that, for non-corporate taxpayers who itemize deductions when computing taxable income, expenses of producing income, including investment advisory fees, are to be aggregated with unreimbursed employee business expenses and other expenses of producing income (collectively, the "Aggregate Investment Expenses"), and the aggregate amount of such expenses will be deductible only to the extent such amount exceeds 2% of a taxpayer's adjusted gross income. In addition, for taxpayers whose adjusted gross income exceeds a certain threshold amount (the "AGI Threshold"), Aggregate Investment Expenses in excess of the 2% threshold, when combined with certain of a taxpayer's other deductions, are subject to a reduction (scheduled to be phased out between 2006 and 2010) equal to the lesser of 3% of the taxpayer's adjusted gross income in excess of the AGI Threshold and 80% of the amount of certain itemized deductions otherwise allowable for the taxable year (the "Phase-out"). Moreover, such Aggregate Investment Expenses are itemized deductions which are not deductible by a non-corporate taxpayer in calculating its alternative minimum tax liability.

The Partnership may be a trader or an investor. If the General Partner determines that the Partnership is an investor, the Partnership will treat the Advisory Fee, as well as the other ordinary expenses of the Partnership, as "investment advisory fees" subject to the 2% floor or the Phase-out. If, however, the General Partner determines that the Partnership is a trader, the Partnership will treat the Advisory Fee, as well as the other ordinary expenses of the Partnership, as ordinary business deductions not subject to the 2% floor or the Phase-out. However, even if the General Partner determines that the Partnership is a trader the IRS could contend that the Partnership should be

characterized as an investor and that such expenses are subject to the aforementioned limitation on deductibility. Regardless of the Partnership's status as a trader or investor, the Partnership will treat the General Partner's annual Profit Share as a share of income and gain which is taxable to the General Partner rather than the Limited Partners and therefore not a deduction by the Partnership which would be subject to the foregoing limitations on deductibility if the Partnership were an investor. However, the IRS could contend that the General Partner's Profit Share should be characterized as "investment advisory fees" which would be subject to aforementioned limitations on deductibility to the extent that the IRS successfully contended that the Partnership is properly characterized as an investor. If the IRS successfully challenges the Partnership's treatment of such payments as not subject to the aforementioned limits on deductibility, each non-corporate Limited Partner's share of the amounts so characterized would be subject to the foregoing limitations on deductibility and Limited Partners could be required to file amended tax returns.

PROSPECTIVE INVESTORS MUST CONSULT THEIR OWN TAX ADVISERS CONCERNING THE FOREGOING "INVESTMENT ADVISORY FEES" ISSUE, WHICH IS A MATTER OF UNCERTAINTY AND COULD HAVE A MATERIAL IMPACT ON AN INVESTMENT IN THE PARTNERSHIP.

#### **Limitations on Deductibility of Interest Expense**

Interest paid or accrued on indebtedness properly allocable to property held for investment is "investment interest". Thus, any interest expense incurred by a Limited Partner to purchase or carry an Interest or incurred by the Partnership or the Master Fund to purchase or carry property held for investment generally will be investment interest. Investment interest is generally deductible by non-corporate taxpayers only to the extent that it does not exceed net investment income (that is, generally, the excess of (1) gross income from interest, dividends, rents and royalties, and (2) certain gains from the disposition of investment property, over the expenses directly connected with the production of such investment income). Any investment interest expense disallowed as a deduction in a taxable year solely by reason of the above limitation is treated as investment interest paid by or accrued in the succeeding taxable year. A taxpayer's qualified dividend income is included in clause (2) of the second preceding sentence only to the extent such taxpayer elects to make a corresponding reduction in the amount of qualified dividend income that is subject to tax at the maximum rate of 15% described below. See "*Qualified Dividend Income*", below.

#### **Syndication Fees**

Neither the Partnership nor the Master Fund will be entitled to any deduction for syndication fees such as the commissions paid to Placement Agents. Such expenses may be includible by a Partner for purposes of determining capital gain or loss upon redemption of its interest in the Partnership.

#### **Treatment of Income and Loss Under the Passive Activity Loss Rules**

The Code contains rules (the "Passive Activity Loss Rules") designed to prevent the deduction of losses from "passive activities" against income not derived from such activities, including income from investment activities not constituting a trade or business, such as interest and dividends ("Portfolio Income") and salary. The trading activities of the Partnership and the Master Fund will not constitute a "passive activity", with the result that the Partnership's income will constitute Portfolio Income or other income not from a passive activity. Accordingly, losses resulting from a Partner's other passive activities cannot be offset against such income, and net losses from the Partnership's operations will be deductible in computing the taxable income of each Partner (subject to other limitations on the deductibility of such losses).

#### **At-Risk Limitation on the Deductibility of Partnership Losses**

A Partner who is a non-corporate taxpayer or closely-held corporation meeting certain tests will not be able to currently deduct such Partner's distributive share of the Partnership's recognized losses for the taxable year, if any, to the extent those losses exceed the amount the Partner is deemed to be economically "at risk" with respect to the Partnership's activities. A Limited Partner in the Partnership is expected to be considered "at risk" with respect to its investment in the Partnership to the extent of the adjusted basis of its Interest, less any amounts borrowed by the

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Limited Partner in connection with the acquisition of that Interest for which it is not personally liable and for which it has not pledged any unrelated property as security. Losses denied under the at-risk limitations are suspended and may be deducted in subsequent years, subject to these and other applicable limitations.

#### **Gain or Loss on Securities; Wash Sale Rules**

Unrealized gain or loss with respect to securities will be taken into account for tax purposes.

#### **Short Sales**

Certain short sale rules may affect the character and timing of gain or loss recognized by the Partnership or the Master Fund for U.S. federal income tax purposes. Under these rules, a short sale not otherwise covered by the straddle rules or the constructive sale rules remains open until the short seller delivers the property to the lender and closes the transaction. Any gain or loss from closing a short sale is generally treated as gain or loss from the sale or exchange of a capital asset. Any such gain will be short-term capital gain, if, on the date of such short sale, the taxpayer holds substantially identical property for one year or less or if the taxpayer acquires substantially identical property prior to closing such short sale. Any loss sustained on closing the short sale is a long-term capital loss if the taxpayer holds at the time of the short sale substantially identical property for more than one year. If a short sale is entered into as part of a straddle, the "modified short sale rule" applies in lieu of the normal short sale provision and certain carrying charges properly allocable to positions of the straddle must be capitalized. Under the modified short sale rule, the holding period of any position that is part of a straddle is suspended and does not begin to run again until the offsetting position is disposed of. Thus, in the case of a taxpayer who is not a dealer, any gain from the disposition of the short position is generally short-term capital gain. However, any loss on one position of a straddle is long-term capital loss, if, at the time the straddle was established, the other position was held for more than one year.

In general, payments in lieu of cash dividends which are made by the borrower of securities to the lender on a short sale are required to be capitalized if the short sale is closed within 45 days (one year, in the case of certain extraordinary dividends) after the sale. To the extent that expenditures made in connection with a short sale are deductible, rather than capitalizable, such expenditures are treated as "investment interest" subject to the investment interest expense limitations discussed above. To the extent that such expenditures relate to the purchase and carrying of tax-exempt securities, such expenditures are not deductible.

#### **Trading and Investing in Derivatives**

The Partnership will invest in and trade derivative instruments, the proper tax treatment of which may not be entirely free from doubt. Limited Partners will be required to treat any such derivatives for U.S. federal income tax purposes in the same manner as they are treated by the Partnership. In addition, the U.S. Treasury Department has recently issued proposed regulations that affect the timing and character of contingent non-periodic payments on notional principal contracts. If finalized in their current form, these regulations could affect the tax treatment of payments on derivatives treated as notional principal contracts. Potential investors should consult their tax advisors regarding an investment in a partnership that invests and trades in derivatives.

#### **Original Issue Discount**

The Partnership or the Master Fund may hold or purchase debt instruments that are issued with "original issue discount" that will be includible in the taxable income of Limited Partners of the Partnership in each year that the Partnership or the Master Fund owns such debt instruments. The rules concerning original issue discount (Sections 1271-1275 of the Code) are complex, and a complete discussion of such rules is beyond the scope of this Summary. Generally, the term "original issue discount" means the excess of the stated redemption price at maturity of the debt obligation (*i.e.*, all payments due under the debt obligation other than payments of stated interest meeting certain requirements) over its issue price. The amount of original issue discount required to be included in the gross income of the Limited Partners in a taxable year will equal the sum of the "daily portions" of original issue discount for each day during the taxable year in which the Partnership or the Master Fund holds such debt instruments. A Limited

Partner will be required to include in income its allocable share of the amount of original issue discount accrued, on a constant-yield basis, with respect to a debt obligation held by the Partnership or the Master Fund.

#### **Market Discount**

If the Partnership purchases a debt instrument ("note"), other than a note issued with original issue discount ("Discount Note"), for an amount that is less than its stated redemption price at maturity or, in the case of a Discount Note, for an amount that is less than its adjusted issue price as of the purchase date, the Partnership will be treated as having purchased the note at a "market discount", unless such market discount is less than a specified *de minimis* amount.

Under the market discount rules, the Partnership will be required to treat any partial principal (or, in the case of a Discount Note, any payment that does not constitute qualified stated interest) on, or any gain realized on the sale, exchange, retirement or other disposition of, a note as ordinary income to the extent of the lesser of: (a) the amount of such payment or realized gain, and (b) the market discount which has not previously been included and is treated as having accrued on the note at the time of such payment or disposition. Market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the note, unless the Partnership elects to accrue market discount on the basis of a constant interest rate.

The Partnership may be required to defer the deduction of all or a portion of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry a note with market discount until the maturity of the note or certain earlier dispositions, because a current deduction is allowed only to the extent the interest expense exceeds an allocable portion of market discount. The Partnership may elect to include market discount in income currently as it accrues (on either a ratable or a constant interest rate basis), in which case the rules described above regarding the treatment as ordinary income of gain upon the disposition of the note and upon the receipt of certain cash payments and regarding the deferral of interest deductions will not apply. Generally, such currently included market discount is treated as ordinary interest. Such an election will apply to all market discount debt instruments acquired by the Partnership on or after the first day of the taxable year to which such election applies and may be revoked only with the consent of the IRS.

#### **Amortizable Bond Premium**

If the Partnership or the Master Fund purchases a bond at a cost that, generally, is in excess of the amount payable on maturity, the excess may constitute amortizable bond premium which is treated as a reduction of interest on such bond. If the Partnership or the Master Fund makes an election under Section 171 of the Code, the Partnership or the Master Fund generally will allocate amortizable bond premium among the interest payments on the bond and the amount so allocated generally will be applied against (and operate to reduce) the amount of such interest payments.

#### **Adjustment to Conversion Price**

Treasury regulations promulgated under Section 305 of the Code treat a holder of convertible securities as having received a constructive distribution where the conversion price of such securities is adjusted to reflect certain taxable distributions with respect to stock into which such convertible securities are convertible. Thus, the Partnership may be taxable on constructive dividends under certain circumstances where an adjustment is made to the conversion price of a convertible security held by the Partnership.

#### **Foreign Taxes and Foreign Tax Credits**

Interest and dividends paid on securities of foreign issuers held by the Partnership or the Master Fund may be subject to taxes imposed by a foreign country. Pursuant to the Regulations under Section 704(b) of the Code, foreign tax credits must be allocated in accordance with the receipts that generate such credits. Subject to the requirements and limitations imposed by the Code, Limited Partners may elect to claim their allocable share of any such foreign taxes paid by the Partnership or the Master Fund as a foreign tax credit against their U.S. federal income tax liability. Limited Partners who do not elect to claim a foreign tax credit may claim a deduction for their allocable share of such foreign taxes (subject to other applicable limitations on the deductibility of such taxes).

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### **Qualified Dividend Income**

Qualified dividend income received in taxable years beginning on or before December 31, 2010, is subject to tax at the rates applicable to adjusted net capital gain, discussed below. Generally, qualified dividend income is dividends received from U.S. corporations and from certain foreign corporations, including foreign corporations whose shares are listed on an established securities market in the United States. Qualified dividend income does not include payments “in lieu of” dividends received from stock lending transactions nor dividends received on stock to the extent the taxpayer is obligated to make related payments with respect to substantially similar or related property (e.g., a short sale of such stock).

### **Cash Distributions and Redemptions of Interests**

Cash received from the Partnership by a Partner as a distribution with respect to his Interest or in redemption of less than all of such Interest generally is not reportable as taxable income by a Partner, except as described below. Rather, such distribution reduces (but not below zero) the total tax basis of the Interest held by the Partner after the distribution or redemption. Any cash distribution in excess of a Partner's adjusted tax basis for his Interest will be taxable to him as gain from the sale or exchange of such Interest. Because a Partner's tax basis in his Interest is not increased on account of his distributive share of the Partnership's income until the end of the Partnership's taxable year, distributions during the taxable year could result in taxable gain to a Partner even though no gain would result if the same distributions were made at the end of the taxable year. Furthermore, the share of the Partnership's income allocable to a Partner at the end of the Partnership's taxable year would also be includible in the Partner's taxable income and would increase his tax basis in his remaining interest as of the end of such taxable year.

Redemption for cash of the entire Interest held by a Partner will result in the recognition of gain or loss for U.S. federal income tax purposes. Such gain or loss will be equal to the difference, if any, between the amount of the cash distribution and the Partner's adjusted tax basis for such Interest. A Partner's adjusted tax basis for his Interest includes for this purpose his distributive share of the Partnership's income or loss for the year of such redemption.

### **Distributions in Kind**

The Partnership may pay withdrawal proceeds in kind rather than in cash. In general, a Partner will not recognize gain or loss on the distribution of property (other than cash) and the tax basis of any property will be the same as the Partnership's tax basis but not in excess of the Partner's adjusted tax basis for his Interest, reduced by any cash distributed in the transaction. A Partner who receives an in kind distribution of property in liquidation of his Interest will have a basis in such property equal to such Partner's adjusted basis in his Interest, reduced by any cash distributed in the transaction.

### **Tax Exempt Investors**

Generally, qualifying tax-exempt organizations, including pension and profit-sharing plans, are exempt from U.S. federal income taxation. This general exemption from tax does not apply to the “unrelated business taxable income” (“UBTI”) of a tax-exempt organization. UBTI includes “unrelated debt-financed income”, which, for any taxable year, generally consists of (i) income derived by a tax-exempt organization (directly or through a partnership) from income-producing property with respect to which there is “acquisition indebtedness” at any time during the taxable year and (ii) gains derived by a tax-exempt organization (directly or through a partnership) from the disposition of property with respect to which there is “acquisition indebtedness” at any time during the twelve-month period ending with the date of such disposition.

*Unless otherwise permitted by the General Partner in its sole discretion, Interests may not be purchased by persons who are exempt from U.S. federal income taxation. In lieu of an investment in the Partnership, any non-U.S. person and any organization exempt from U.S. federal income taxation may want to consider and should consult with the Investment Manager regarding an investment in the Offshore Enhanced Leverage Feeder Fund.*

TAX-EXEMPT INVESTORS ARE URGED TO CONSULT THEIR ADVISERS WITH RESPECT TO THE CONSEQUENCES OF AN INVESTMENT IN THE PARTNERSHIP.

#### **Tax Shelter Regulations**

A participant in a "reportable transaction" is required to disclose its participation in such transaction by filing Form 8886 ("Reportable Transaction Disclosure Statement"). In addition, a "material advisor" with respect to such transaction is required to (i) maintain a list containing certain information with respect to such transaction (including the participants with respect to whom the material advisor acted in such capacity) and (ii) file a return setting forth information identifying and describing the transaction and any information describing any potential tax benefits expected to result from the transaction. The failure to comply with such rules can result in substantial penalties.

The General Partner cannot predict whether any of the Partnership's transactions will subject it, the Partnership or any of the Partners to the aforementioned requirements. However, if the General Partner (or any other material advisor) determines that any such transaction causes it or the Partnership to be subject to the aforementioned requirements, the General Partner (or any other material advisor) will, and will cause the Partnership to, fully comply with such requirements. Prospective investors should consult with their tax advisors regarding the applicability of these rules to their investment in the Partnership.

#### **Partnership Audits**

The tax treatment of Partnership-related items is determined at the Partnership level rather than at the Partner level. The General Partner has been appointed as "tax matters partner" with the authority to determine the Partnership's response to an audit. The limitations period for assessment of deficiencies and claims for refunds with respect to items related to the Partnership is generally three years after the Partnership's return for the taxable year in question is filed, and the General Partner has the authority to, and may, extend such period with respect to all Limited Partners. It is possible that the IRS will audit the information returns to be filed by the Partnership. If an audit results in an adjustment, the General Partner and each Limited Partner may be required to pay additional taxes, interest and possibly penalties and additions to tax. There can be no assurance that the Partnership's tax return will not be audited by the IRS or that no adjustments to such returns will be made as a result of such an audit.

#### **State and Local Taxes**

In addition to the U.S. federal income tax consequences described above, the Partnership, the General Partner and the Limited Partners may be subject to various state, local and municipal taxes. Certain of such taxes could, if applicable, have a significant effect on the amount of tax payable in respect of an investment in the Partnership. A Limited Partner's distributive share of the profits of the Partnership may be required to be included in determining reportable income for state or local tax purposes. Limited Partners must consult their own advisers regarding the possible applicability of state, local, or municipal taxes to an investment in the Partnership.

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Except as otherwise set forth, the foregoing statements regarding the U.S. federal income tax consequences to the Limited Partners of an investment in the Partnership are based upon the provisions of the Code as currently in effect and the existing administrative and judicial interpretations thereunder. No assurance can be given that administrative, judicial or legislative changes will not occur that would make the foregoing statements incorrect or incomplete.

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THE FOREGOING DISCUSSION IS NOT INTENDED AS A SUBSTITUTE FOR CAREFUL TAX PLANNING, PARTICULARLY SINCE CERTAIN OF THE INCOME TAX CONSEQUENCES OF AN INVESTMENT IN THE PARTNERSHIP MAY NOT BE THE SAME FOR ALL TAXPAYERS. ACCORDINGLY, PROSPECTIVE INVESTORS IN THE PARTNERSHIP ARE URGED TO CONSULT THEIR TAX ADVISERS WITH SPECIFIC REFERENCE TO THEIR OWN TAX SITUATION UNDER U.S. FEDERAL LAW AND THE PROVISIONS OF APPLICABLE STATE, MUNICIPAL AND LOCAL LAWS BEFORE SUBSCRIBING FOR INTERESTS.

## INVESTMENTS BY EMPLOYEE BENEFIT PLANS

### In General

The following section sets forth certain consequences under ERISA and the Code that a fiduciary of an “employee benefit plan” as defined in, and subject to Part 4 of Title I of, ERISA or of a “plan” as defined in and subject to Section 4975 of the Code who has investment discretion should consider before deciding to invest the plan’s assets in the Partnership (such “employee benefit plans” and “plans” being referred to herein as “Plans”, and such fiduciaries with investment discretion being referred to herein as “Plan Fiduciaries”). The following summary is not intended to be complete, but only to address certain questions under ERISA and the Code that are likely to be raised by the Plan Fiduciary’s own counsel.

\* \* \*

Any discussion of U.S. federal tax issues set forth in this Memorandum was written in connection with the promotion and marketing by the Partnership, BSAM and the Placement Agents of the transactions described in this Memorandum. Such discussion was not intended or written to be legal or tax advice to any person and was not intended or written to be used, and it cannot be used, by any person for the purpose of avoiding any U.S. federal tax penalties that may be imposed on such person. Each investor should seek advice based on its particular circumstances from an independent tax advisor.

\* \* \*

In general, the terms “employee benefit plan” as defined in ERISA and “plan” as defined in Section 4975 of the Code together refer to any plan or account of various types that provides retirement benefits or welfare benefits to an individual or to an employer’s employees and their beneficiaries. Such plans and accounts include, but are not limited to, corporate pension and profit-sharing plans, “simplified employee pension plans”, Keogh plans for self-employed individuals (including partners), individual retirement accounts described in Section 408 of the Code and medical benefit plans.

Each Plan Fiduciary must give appropriate consideration to the facts and circumstances that are relevant to an investment in the Partnership, including the role an investment in the Partnership plays in the Plan’s investment portfolio. Each Plan Fiduciary, before deciding to invest in the Partnership, must be satisfied that investment in the Partnership is a prudent investment for the Plan, that the investments of the Plan, including the investment in the Partnership, are diversified so as to minimize the risks of large losses and that an investment in the Partnership complies with the governing documents of the Plan and related trust.

EACH PLAN FIDUCIARY CONSIDERING ACQUIRING AN INTEREST MUST CONSULT ITS OWN LEGAL AND TAX ADVISERS BEFORE DOING SO.

### Restrictions on Investments by Benefit Plan Investors

ERISA and a regulation issued thereunder contain rules for determining when an investment by a Plan in an entity will result in the underlying assets of the entity being assets of the Plan for purposes of ERISA and Section 4975 of the Code (*i.e.*, “plan assets”). Those rules provide that assets of an entity will not be plan assets of a Plan that purchases an interest therein if the investment by all “benefit plan investors” is not “significant” or certain other exceptions apply. The term “benefit plan investors” includes all Plans (*i.e.*, all “employee benefit plans” as defined in, and subject to Part 4 of Title I of, ERISA and all “plans” as defined in and subject to Section 4975 of the Code),

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and all entities that hold “plan assets” (each a “Plan Assets Entity”) due to investments made in such entities by already described benefit plan investors. ERISA provides that a Plan Assets Entity is considered to hold plan assets only to the extent of the percentage of the Plan Assets Entity’s equity interests held by benefit plan investors. In addition, all or a portion of an investment made by an insurance company using assets from its general account may be treated as a benefit plan investor. Investments by benefit plan investors will be deemed not significant if benefit plan investors own, in the aggregate, less than 25% of the total value of each class of equity interests of the entity (determined by not including the investments of persons with discretionary authority or control over the assets of such entity, of any person who provides investment advice for a fee (direct or indirect) with respect to such assets, and “affiliates” (as defined in the regulations issued under ERISA) of such persons; *provided, however*, that under no circumstances are investments by benefit plan investors excluded from such calculation).

In order to avoid causing the assets of the Partnership to be “plan assets”, the General Partner intends to restrict the aggregate investment by benefit plan investors to under 25% of the total value of each class of equity interests of the Partnership (not including the investments of the General Partner, any person who provides investment advice for a fee (direct or indirect) with respect to the assets of the Partnership, and any entity (other than a benefit plan investor) that is directly or indirectly through one or more intermediaries controlling, controlled by or under common control with any of such entities (including an entity for which the General Partner is the general partner, investment adviser or provides investment advice), and each of the principals, officers and employees of any of the foregoing entities who has the power to exercise a controlling influence over the management or policies of such entity or of the Partnership). Furthermore, because the 25% test is ongoing, it not only restricts additional investments by benefit plan investors but can also cause the General Partner to require that existing benefit plan investors withdraw from the Partnership if other investors withdraw. If rejection of subscriptions or such mandatory withdrawals are necessary, as determined by the General Partner, to avoid causing the assets of the Partnership to be “plan assets”, the General Partner will effect such rejections or withdrawals in such manner as the General Partner, in its sole discretion, determines.

#### **Ineligible Purchasers**

In general, Interests may not be purchased with the assets of a Plan if the General Partner, the Administrator, any Director of the Master Fund, BSIL, the Prime Broker, the Leverage Instrument Counterparty, Stone Tower Debt Advisors LLC, Dresdner Bank AG London Branch, any Placement Agent, any of their respective affiliates or any of their respective employees either: (i) has investment discretion with respect to the investment of such plan assets; (ii) has authority or responsibility to give or regularly gives investment advice with respect to such plan assets, for a fee, and pursuant to an agreement or understanding that such advice will serve as a primary basis for investment decisions with respect to such plan assets and that such advice will be based on the particular investment needs of the Plan; or (iii) is an employer maintaining or contributing to such Plan. A party that is described in clause (i) or (ii) of the preceding sentence is a fiduciary under ERISA and the Code with respect to the Plan, and any such purchase might result in a “prohibited transaction” under ERISA and the Code.

In addition, unless an exemption from the prohibited transaction rules of ERISA and Section 4975 of the Code applies, it may be a prohibited transaction for a Plan or Plan Assets Entity to purchase Interests from, or withdraw Interests of, the Partnership if the Partnership or Master Fund is a “party in interest” as defined in Section 3(14) of ERISA or a “disqualified person” as defined in Section 4975(e)(2) of the Code with respect to the Plan or one or more Plans holding an interest in the Plan Assets Entity. A party in interest and a disqualified person include a company of which 50% or more of the voting power or value of the company is owned directly or indirectly by a fiduciary or service provider with respect to a Plan. Because Barclays Bank PLC will be the sole investor in the Master Fund, if Barclays Bank PLC or one of its affiliates were to be a fiduciary or service provider to certain Plans, there is a risk that the Partnership and Master Fund may be a party in interest and a disqualified person with respect to a Plan for which Barclays Bank PLC or one of its affiliates is a fiduciary or service provider. Therefore, in order to avoid engaging in any direct or indirect prohibited transaction, during any time that Barclays Bank PLC owns 50% or more of the Master Fund, a benefit plan investor may not purchase Interests or withdraw Interests unless either: one of the following prohibited transaction exemptions applies and will continue to apply while the benefit plan investor owns Interests: (i) Prohibited Transaction Class Exemption (“PTCE”) 84-14 applicable to certain transactions involving qualified professional asset managers, (ii) PTCE 96-23 applicable to certain transactions involving in-house asset managers, (iii) PTCE 90-1 applicable to certain transactions involving insurance company pooled separate accounts, (iv) PTCE 91-38 applicable to certain transactions involving bank collective investment

funds, (v) PTCE 95-60 applicable to certain transactions involving insurance company general accounts, or (vi) the service provider exemption provided by Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code; or the benefit plan investor has determined that it has no relationship, and will not have a relationship, during the time it holds Interests, to Barclays Bank PLC or any of its affiliates that would cause the Partnership to be a "party in interest" or "disqualified person" with respect to such benefit plan investor.

Except as otherwise set forth, the foregoing statements regarding the consequences under ERISA and the Code of an investment in the Partnership are based on the provisions of the Code and ERISA as currently in effect, and the existing administrative and judicial interpretations thereunder. No assurance can be given that administrative, judicial, or legislative changes will not occur that may make the foregoing statements incorrect or incomplete.

ACCEPTANCE OF SUBSCRIPTIONS ON BEHALF OF PLANS IS IN NO RESPECT A REPRESENTATION BY THE GENERAL PARTNER OR ANY OTHER PARTY RELATED TO THE PARTNERSHIP THAT THIS INVESTMENT MEETS THE RELEVANT LEGAL REQUIREMENTS WITH RESPECT TO INVESTMENTS BY ANY PARTICULAR PLAN OR THAT THIS INVESTMENT IS APPROPRIATE FOR ANY PARTICULAR PLAN. THE PERSON WITH INVESTMENT DISCRETION SHOULD CONSULT WITH HIS OR HER ATTORNEY AND FINANCIAL ADVISERS AS TO THE PROPRIETY OF AN INVESTMENT IN THE PARTNERSHIP IN LIGHT OF THE CIRCUMSTANCES OF THE PARTICULAR PLAN.

#### **PLAN OF DISTRIBUTION**

This is a private offering pursuant to exemptions provided by Section 4(2) of the Securities Act and Rule 506 thereunder. The Partnership's assets are managed by the General Partner. The Partnership does not offer any feature designed to assure a return of capital to investors.

Bear Stearns, certain of its affiliates and certain non-affiliated selling agents may serve as placement agents with respect to Interests (collectively, "Placement Agents"), subject to prior sale, when, as and if delivered, and subject to certain other conditions. The General Partner is authorized to appoint any broker-dealer of securities which is registered as such with the SEC and is a member as such with the NASD to make offers or sales of Interests. Additionally, the General Partner may appoint, under certain circumstances, any foreign bank, dealer, institution, or individual which is ineligible for or not subject to SEC registration or NASD membership to make offers or sales of Interests outside the United States and its possessions or territories.

#### **SUBSCRIPTION PROCEDURE**

Interests are offered for sale through Placement Agents on a continuous basis as of the opening of business of the first Business Day of each calendar month. The minimum initial subscription amount for each new investor in the Partnership is \$1,000,000. The minimum additional investment is \$500,000. The General Partner may accept or reject any initial or additional subscriptions and may waive the minimum subscription amounts in its sole discretion.

In order to subscribe for Interests, a prospective investor must submit a fully completed and executed Subscription Agreement to the General Partner. Subscription Agreements must be received by the General Partner at least five Business Days prior to the Subscription Date (or such shorter period permitted by the General Partner). The subscriber must also make arrangements with the General Partner for the transmission of its subscription funds, which must be received by the Partnership prior to 5:00 p.m. (New York time) two Business Days prior to the relevant Subscription Date (or such shorter period acceptable to the General Partner). After both the Subscription Agreement and subscription amount are received, the General Partner will promptly notify the subscriber whether the subscription will be accepted or rejected. Subscription Agreements should be sent to the General Partner, c/o Bear Stearns Asset Management Inc., 383 Madison Avenue, New York, New York 10179.

All subscriptions are irrevocable. The Partnership may accept a subscription only in part, and will promptly notify any affected subscriber.

As part of the subscription process, prospective investors must furnish the General Partner and the Administrator with all representations and documentation required pursuant to their anti-money laundering policies and applicable

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anti-money laundering laws and regulations and agree to provide any information deemed necessary by the General Partner in its sole discretion to comply with its anti-money laundering program and related responsibilities from time to time.

**PROSPECTIVE SUBSCRIBERS MUST CAREFULLY CONSIDER THE INFORMATION REQUIRED IN THE SUBSCRIPTION AGREEMENT AND THE PROPOSED AMOUNT OF THEIR INVESTMENT IN LIGHT OF THE AMOUNT OF THEIR OTHER SPECULATIVE INVESTMENTS. AN INVESTMENT IN THE PARTNERSHIP IS SUITABLE ONLY FOR A LIMITED PORTION OF THE RISK SEGMENT OF AN INVESTOR'S PORTFOLIO.**

#### **PRIVACY STATEMENT**

This privacy statement is issued by the Partnership, the General Partner, and their affiliates. The Partnership and the General Partner consider privacy to be fundamental to investor relationships and adhere to the policies and practices described below to protect current and former investors' nonpublic personal information.

The Partnership and the General Partner do not disclose nonpublic personal information about investors or former investors to third parties other than as described herein. The Partnership and the General Partner never sell investor lists or individual investor information. Internal policies are in place to protect confidentiality, while allowing investor needs to be served. Only individuals who need to do so in carrying out their job responsibilities may access investor information. The Partnership and the General Partner maintain physical, electronic, and procedural safeguards that comply with federal standards to protect confidentiality. These safeguards extend to all forms of interaction with the Partnership and the General Partner, including the Internet.

In the normal course of business, investors give the Partnership and the General Partner nonpublic personal information on subscription documents and other forms, on websites, and through transactions with affiliates of the General Partner. The Partnership, the Administrator and the General Partner collect information about investors (such as name, address, birth date, social security number, educational and professional background, assets, and income) and the investors' transactions with the Partnership, the Administrator and the General Partner and its affiliates (such as investments, performances, and account balances). To enable the Partnership, the Administrator and the General Partner to serve investors, information may be shared with affiliates and third parties that perform various services for the Partnership, the Administrator and the General Partner, such as transfer agents, lawyers, custodians, administrators, and broker-dealers. This shared information includes identification information (e.g., name and address), transaction and experience information (e.g., account balance), and other information necessary to accomplish transactions. This information may be shared with affiliates, with companies with which the Partnership and the General Partner have marketing agreements, or with other parties only as permissible by law. Any organization receiving client information may only use it for the purpose designated by the General Partner or its affiliates. In addition, the Administrator may pass on client information to the General Partner.

#### **MISCELLANEOUS**

##### **Side Letter Arrangements**

The Partnership and the Other Feeder Funds may from time to time enter into agreements with certain investors which provide for terms of investment that are more favorable to such investors than the terms described in this Memorandum (collectively, "Side Letters"). Such terms may include (i) the waiver, reduction or rebate of Advisory Fees and/or Profit Shares or incentive fees, (ii) preferential transfer or liquidity rights, including additional withdrawal dates and waived or reduced withdrawal notice periods, withdrawal fees or holdback periods for withdrawal proceeds, (iii) the commitment to permit future investments in the Partnership by such investors when the Partnership is otherwise closed to new or additional investments and (iv) undertakings designed to protect an investor from violating an applicable statute or administrative regulation. The Partnership may also agree to provide certain investors with supplemental information and reports; *provided, however*, that any such supplemental information and reports will also be offered to all other Limited Partners (who may or may not choose to receive such supplemental information and reports). In any such case, the supplemental information or reports provided for in the Side Letter may affect the decision of its recipient to request a withdrawal from its Capital Account. Other than with respect to supplemental information and reports, Side Letters will not generally entitle other investors to



the same preferential terms of investment and the Partnership may not disclose to other investors the existence or terms of any such Side Letters. The Partnership will enter into Side Letters only if and to the extent they are consistent, and implemented in accordance, with the governing documents of the Partnership and the fiduciary duties owed by the Partnership to its investors.

#### **Reports to Limited Partners**

Within 30 days of the end of each calendar month, the Partnership will prepare an account statement containing information relating to the Net Asset Value of the Partnership and each Limited Partner's Capital Account balance as of the end of such month. In addition, an annual report containing audited financial statements will be prepared and distributed to Limited Partners as soon as practicable after the close of the Partnership's fiscal year. Limited Partners will also receive all necessary federal tax information regarding the Partnership. Copies of these reports will be mailed to Limited Partners at their registered addresses.

#### **Amendments to the Partnership Agreement**

The Partnership Agreement provides generally that the General Partner may amend the Partnership Agreement at any time and from time to time, in a manner that materially adversely affects or could reasonably be expected to have a material adverse affect on the Partnership or the Limited Partners; *provided, however*, that the General Partner may not make any such amendment without (i) giving notification to the Limited Partners, at least thirty (30) days prior to the implementation of such amendment, setting forth all material facts relating to such amendment and (ii) obtaining the Consent of the Partnership (as defined in the Partnership Agreement) to such amendment prior to the implementation thereof.

In addition, the General Partner, without obtaining the authorization or approval of any Limited Partner and without giving prior notification to any Limited Partner, may amend the Partnership Agreement at any time and from time to time to the extent necessary, in the reasonable judgment of the General Partner, to:

- (i) cause the provisions relating to Capital Accounts to comply with the provisions of Section 704 of the Code and the Regulations thereunder;
- (ii) otherwise cause the provisions of the Partnership Agreement to comply with any requirement, condition, or guideline contained in any order, directive, opinion, ruling, or regulation of a federal or state agency or contained in federal or state law;
- (iii) ensure the Partnership's continuing classification as a partnership for U.S. federal income tax purposes;
- (iv) prevent the Partnership from being treated as a "publicly traded partnership" within the meaning of Section 7704 of the Code and the Regulations (including by amending withdrawal provisions to permit withdrawals less frequently than on a monthly basis);
- (v) take such actions as may be necessary or appropriate to avoid the assets of the Partnership being treated for any purpose of ERISA or Section 4975 of the Code as assets of any "employee benefit plan" as defined in and subject to ERISA or of any plan as defined in Section 4975 of the Code (or any corresponding provisions of succeeding law) or to avoid the Partnership's engaging in a prohibited transaction as defined in Section 406 of ERISA or Section 4975(c) of the Code;
- (vi) prevent the Partnership from being required to register as an "investment company" under the Company Act;
- (vii) add to the obligations of the General Partner for the benefit of the Partnership or the Limited Partners;

(viii) reflect the admission, substitution, termination, or withdrawal of Partners after the date hereof in accordance with the provisions of the Partnership Agreement;

(ix) cure any ambiguity in the Partnership Agreement or correct any provision in the Partnership Agreement that is manifestly incorrect; or

(x) provide that any one or more additional General Partners may possess and exercise any one or more of the rights, powers, and authority of a general partner under the Partnership Agreement.

Moreover, upon giving notification to the Limited Partners, but without obtaining the authorization or approval of any Limited Partner, the General Partner may amend the Partnership Agreement at any time and from time to time for such purpose as the General Partner may deem necessary, appropriate, advisable, or convenient, provided that, in the General Partner's reasonable judgment, such amendment could not reasonably be expected to have a material adverse affect on the Partnership or any Limited Partner. No such amendment, however, may either eliminate or set a significant barrier to the rights of the Nonaffiliated Limited Partners to remove and/or replace the General Partner, as provided in the Partnership Agreement.

#### **Available Documents**

The Master Fund's Memorandum and Articles of Association and the Partnership's and the Master Fund's agreements with the General Partner and the Administrator are available for inspection and review by Limited Partners, prospective investors, and their authorized representatives during normal business hours at the office of the Administrator. Such documents will also be sent to Limited Partners and prospective investors at cost upon request. The Partnership will afford prospective investors the opportunity to obtain any additional information necessary to verify the accuracy of any representations or information set forth in this Memorandum, to the extent that the Partnership possesses such information or can acquire it without unreasonable effort or expense. Such review is limited only by the proprietary and confidential nature of the trading strategies utilized by the General Partner and by the confidentiality of personal information relating to other investors.

Because the Partnership will invest a substantial amount of its assets in Repackaging Vehicle Junior Interests, and an investment in the Partnership involves certain of the risks of investing in Repackaging Vehicle Junior Interests, the offering documents for Repackaging Vehicle Securities and/or any operative documents of the Repackaging Vehicles referred to in the Repackaging Vehicle offering documents, subject to any confidentiality requirements imposed on the Partnership, will be sent to Limited Partners and prospective investors without charge upon request to the General Partner at Bear Stearns Asset Management Inc., 383 Madison Avenue, New York, New York 10179, Attention: Alternative Fund Services; telephone: 212-272-1630; facsimile: 917-849-3018.

#### **Inquiries**

Inquiries regarding the Partnership and the Interests should be directed to the General Partner.