

66. EDGE196™ may utilize credit derivatives.

Default risk derivatives are linked to the price of reference securities or loans after a default by the issuer or borrower, respectively. Market spread derivatives are based on the risk that changes in market factors, such as average credit spreads, can cause a decline in the value of a security, loan or index. The use of credit derivatives involves strategies and risks different from those associated with ordinary portfolio security transactions.

If EDGE196™ is incorrect in its forecasts of default risks, market spreads or other applicable factors, the purchase performance of EDGE196™ would diminish compared with what it would have been if these techniques were not used.

Moreover, even if EDGE196™ is correct in its forecasts, there is a risk that a credit derivative position may correlate imperfectly with the price of the asset or liability being hedged. To the extent desired for strategic purposes, exposure may be attained through the use of derivatives described herein, through credit default swap transactions and through other derivatives.

67. EDGE196™ may enter into swap transactions for trading, purchase, and hedging purposes.

The use of securities, interest rate, credit, currency, equity, commodity, index, and total return swaps, swap options (or swaptions), and interest rate caps, floors, and collars is a highly specialized activity that transactions. EDGE196™ may write (sell) and purchase put and call swaptions. Swaps are individually negotiated transactions where each party agrees to make a one-time payment or periodic payments to the other party. The parties to a swap typically do not obligate themselves to make "principal" payments, but only to pay the agreed upon rates or amounts as applied to an agreed upon "notional" amount. Nevertheless, most swap agreements are currently principal-to-principal transactions in which performance is the responsibility of the individual counterparty and not an organized exchange or clearinghouse. As such, EDGE196™ is exposed to the risk of counterparty default. In the future, it is expected that most interest rate and other standardized swaps will be executed on swap execution facilities and the credit of the exchange will be substituted for the credit risk of a counterparty.

Moreover, the EDGE196™'s forecasts of market values, interest rates, and currency exchange rates may be inaccurate and may result in overall EDGE196™ performance results that are worse than the results that would have been achieved if EDGE196™ did not engage in swap transactions.