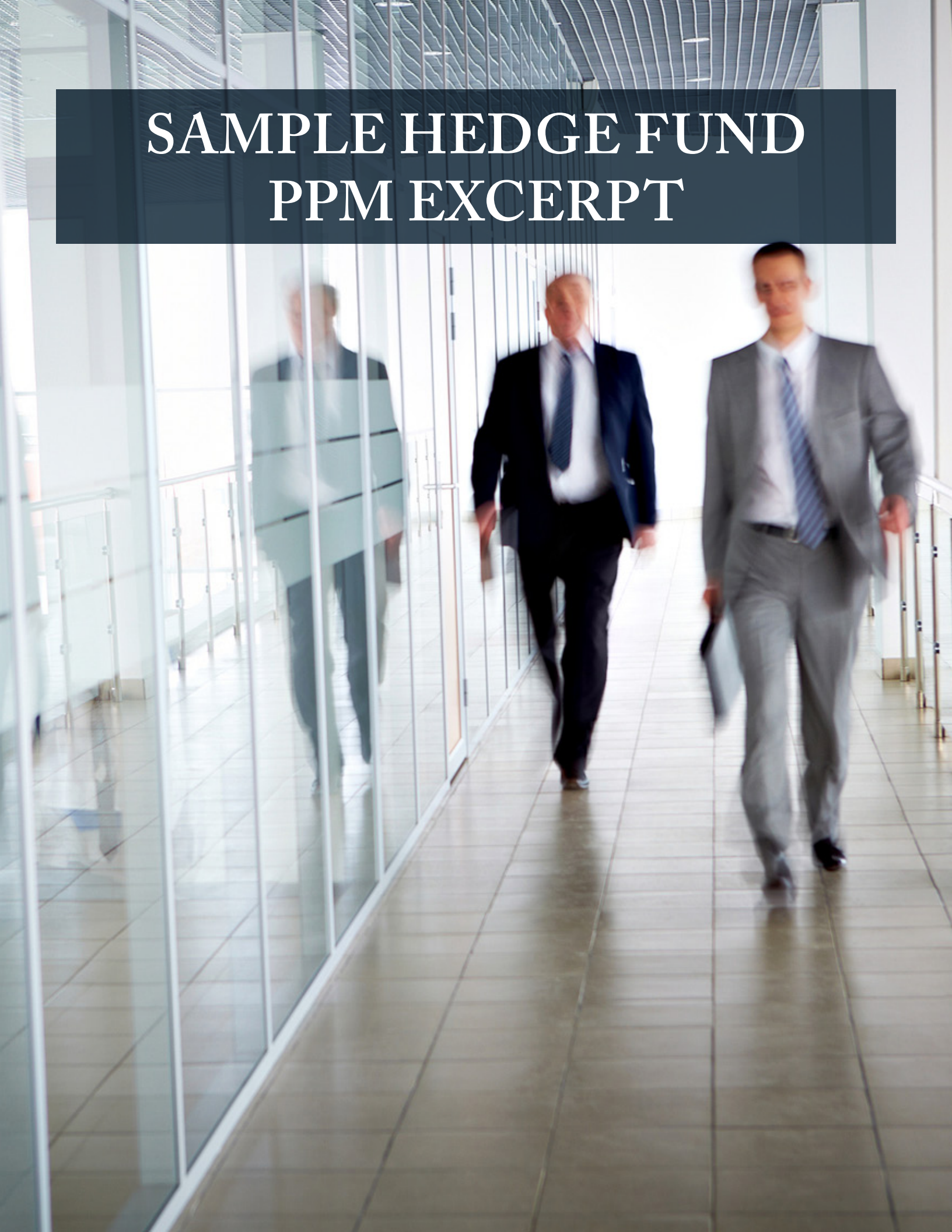
SAMPLE HEDGE FUND PPM EXCERPT



PPM EXCERPT WITH ILLUSTRATIVE EXPLANATIONS

The Following is a concise model excerpt of a hedge fund private placement memorandum (PPM) with footnoted explanations of the PPM provisions. The PPM is based on a fictitious master-feeder hedge fund using a global fixed-income arbitrage strategy. XYZ Feeder Fund, LP is a domestic feeder fund to a Cayman Island master fund. The accompanying explanations discuss the reasons behind certain disclosure language as well as detailed examination of certain fund topics and how they apply to the disclosure document. The excerpt also provides drafting tips, best practice recommendations, potential pitfalls and common mistakes in hedge fund PPMs.

Although the XYZ Feeder Fund, LP uses a fixed-income arbitrage strategy, the explanations provide information that should be helpful to fund managers using any strategy.

Name of Offeree: _____[1] Memorandum No.: _____[2]

CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM

PLACEMENT OF LIMITED PARTNERSHIP INTERESTS

XYZ FEEDER FUND, LP[3]

(A DELAWARE[4] LIMITED PARTNERSHIP[5])

THE LIMITED PARTNERSHIP INTERESTS IN XYZ FEEDER FUND, LP (THE "FUND"), HAVE NOT BEEN REGISTERED WITH OR RECOMMENDED BY THE SECURITIES EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION OR ANY OTHER GOVERNMENTAL

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1 Managers must carefully track the circulation of the PPM and the other fund offering documents to remain in compliance with the registration exemption under the Investment Company Act of 1940 (the "Investment Company Act") to show that the fund is not making a "public offering." Additionally, tracking circulation of offering documents is essential to satisfy New York's pre-offer Regulation D filing requirement and to satisfy potential SEC or state audits. Beyond the regulatory requirements, as a practical matter it is important to know which version of an offering document was given to which investor, as modifications are common.

Each PPM should bear the name of the intended offeree and a unique identifying number. The fund manager should maintain a spreadsheet showing the name and number of each PPM distributed, together with the date of offer, the version of the document, and a description of any written information provided to the investor.

2 As noted above, each memorandum should be numbered, preferably non-sequentially.

3 The fictitious fund in this illustrative PPM excerpt is a New-York-based feeder fund set up as a limited partnership feeding into a Cayman Islands master fund, with separate general partner and investment management company entities.

4 Domestic hedge funds are typically structured as either limited partnerships or limited liability companies (LLCs). Limited partnerships have historically been the entity of choice for most funds, although LLCs are gaining in popularity. LLC-structured hedge funds can present some complication for investors in certain states and municipalities. Most funds opt for the limited partnership structure unless there is a specific reason to use an LLC. One situation where the LLC fund is especially useful is in a multi-series fund, where multiple fund series can be created without the effort and expense of filing additional formation documents for successive funds.

5 Delaware is the most popular jurisdiction for domestic hedge fund entities. Delaware provides well-developed limited partnership laws and an investment-experienced judiciary.

OR SELF REGULATORY AGENCY. NO GOVERNMENTAL AGENCY[6], INCLUDING THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR ANY SELF-REGULATORY AGENCY HAS PASSED UPON THE ACCURACY OR ADEQUACY OF THIS CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

INTERESTS IN THE FUND ARE NOT REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED ("SECURITIES ACT"), IN RELIANCE ON THE PROVISIONS OF REGULATION D UNDER THE SECURITIES ACT. THE INTERESTS ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND GENERALLY MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION THEREUNDER OR EXEMPTION THEREFROM, AND AS PERMITTED IN THE FUND'S AGREEMENT OF LIMITED PARTNERSHIP.

INTERESTS IN THE FUND ARE NOT FREELY MARKETABLE AND INVOLVE A HIGH DEGREE OF RISK. SEE THE DISCUSSION UNDER "Certain Risk Factors" AND ELSEWHERE HEREIN.

The date of this Confidential Private Placement Memorandum is January 1, 2015.[7]

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6 This required disclosure informs investors that the notice filing of a Regulation D offering does not imply that the SEC or any state has sanctioned the offering. This seeks to clarify that the filing of a Form D notice filing does not involve government approval, as in the case of a public offering. New York requires a submittal of the offering in connection with the Form D notice filing prior to making an offering in the state but does not approve or disapprove the offering. Other states will review certain hedge fund managers that are required to register as a state-regulated investment advisor. Additionally, when a broker-dealer is used as a placement agent, the offering documents must be reviewed by FINRA.

7 Generally the date of a PPM does not reflect the date that the PPM was given to an investor, but the date on which the most recent version of the PPM was finalized. When material changes occur that affect the fund or its management, such changes should be reflected in an amended PPM and the date should be modified accordingly.

INTRODUCTION

XYZ Feeder Fund, LP (the "Fund"), is a limited partnership organized under the laws of the State of Delaware on January 1, 2015. The general partner of the Fund is XYZ General Partner,LLC, a NewYork limited liability company (the "General Partner")[8] . XYZ Investment Manager, LLC is the investment manager to the Fund (the "Investment Manager").[9]

The Fund expects to invest substantially all of its assets in XYZ Master Fund Cayman Ltd. (the "Master Fund"), a business company incorporated under the laws of the Cayman Islands. XYZ OffshoreFeeder Fund Cayman Ltd. (the "Offshore Fund"), a business company incorporated under the laws of the Cayman Islands, has an investment objective and a strategy identical to the Fund, and it will alsoinvest substantially all of its assets in the Master Fund. The Offshore Fund was established to serve as an investment vehicle for investments from certain U.S. tax-exempt persons and non-U.S. persons. The Investment Manager provides investment advisory services to the Offshore Fund and the Master Fund.

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8 The general partner and management fund entities are established in the jurisdiction in which the fund's management team is physically located, whereas the limited partnership (the fund entity) is established in Delaware. For purposes of determining state investment advisor jurisdiction, a management company must look to the state in which its primary investment activity is located.

As noted in Chapter XI, some states have exemptions for investment fund managers from state investment advisor registration (up to certain AUM level and number of funds) while others do not. Wyoming, in fact, has no state investment advisor statute whatsoever. Fund managers often inquire as to whether they can form the general partner/management company in a state in which the manager is not physically located and thus be governed by state law. Unfortunately, the only way for a fund manager to avail itself of a state's law is to physically move the business operations to the state, or at least have a key individual residing and working in the state.

9 Many hedge funds combine the functionality of the general partner and the investment manager into a single entity. This is usually an appropriate and cost effective structure for a startup fund manager looking to manage a single fund. There are circumstances in which the general partner and the management company should be established as separate entities.

First, two separate entities should be created when the management team is located in New York City to shield the general partner from New York City's Unincorporated Business Tax (UBT). New York City imposes UBT on any person or entity carrying on a trade or business in the city. If the general partner's business activity is limited to holding a carried interest in the fund, rather than active management, the general partner would fall within the "trading for one's own account" exemption.

Second, when multiple funds are established, a single management company typically manages all the funds collectively, up to a maximum of fifteen funds (per the Investment Advisors Act of 1940). However, each fund should have its own independent general partner that shields the performance capital allocations from liability from the other funds managed by the investment manger.

This Confidential Private Placement Memorandum (this "Confidential Memorandum"), relates to the offering of limited partnership interests of the Fund (the "Interests"), and sets forth information with respect to the investment objective and policies of the Fund, certain risks related to an investment in the Fund, management of the Fund and its investments, the principal terms of the Agreement of Limited Partnership of the Fund dated January 1, 2014 (the "Partnership Agreement"), the terms upon which the Interests are being issued, the suitability requirements for an investment in the Fund and certain other matters.[10] However, this Confidential Memorandum does not address all aspects of the topics described herein and this Confidential Memorandum may not contain all of the information that a potential investor may deem material for purposes of deciding whether to invest in the Fund. In making an investment decision, potential investors in the Fund must rely upon their own examination of the Fund and the terms of this offering, including the merits and risks involved.

INTERESTS ARE SUITABLE ONLY FOR SOPHISTICATED INVESTORS FOR WHOM AN INVESTMENT IN THE FUND DOES NOT CONSTITUTE A COMPLETE INVESTMENT PROGRAM AND WHO FULLY UNDERSTAND AND ARE WILLING TO ASSUME THE RISKS INVOLVED IN THE FUND'S INVESTMENT STRATEGY.[11] THE FUND EXPECTS TO INVEST SUBSTANTIALLY ALL OF ITS ASSETS IN THE MASTER FUND. THE INVESTMENT PRACTICES OF THE FUND AND THE MASTER FUND, BY THEIR NATURE, MAY BE CONSIDERED TO INVOLVE A SUBSTANTIAL DEGREE OF RISK. (SEE "Investment Objective and Strategies" and "Certain Risk Factors".)

The minimum investment in the Fund is $250,000, except that the General Partner reserves the right, in its sole and absolute discretion, to accept subscriptions in lesser amounts from investors who otherwise satisfy the Fund's

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10 It is vital that the PPM properly reflect the underlying limited partnership agreement and subscription agreement. In performing offering document reviews from prior drafters, we often discover significant discrepancies between the summarized terms of the PPM and the actual terms of the limited partnership agreement. One reason for this is that fund managers, and unfortunately some legal counsel, view the PPM as the primary offering document, to which a limited partnership agreement may be quickly conformed.

It is important to understand the distinction between the functions of the PPM versus that of the limited partnership agreement and subscription agreement. The PPM is not a binding contractual document, but a disclosure of the terms and risks of investment in the fund and a summary of the binding investment terms in the limited partnership agreement and subscription agreement.

11 The suitability standard disclosed here (and later attested to in the subscription agreement and investor questionnaire) provides that the offering is only suitable for sophisticated investors for whom the offering does not constitute a complete investment program. As discussed in Chapter V, if an investor is "accredited" it need not also meet the "sophistication" requirement. Even though all of the investors are accredited (under Regulation D) or qualified clients (under the Investment Advisors Act of 1940) this language should still be included for an extra layer of protection, even if not strictly required from a regulatory perspective.

suitability criteria. Additional investments may be for a minimum of $50,000, unless otherwise determined by the General Partner in its sole and absolute discretion. The Interests in the Fund are being offered solely to a limited number of investors, each of which qualifies as (1) an "accredited investor," as defined in Rule 501 of Regulation D under the Securities Act; (2) a "qualified client," as defined under Rule 205-3(d)(1) of the Investment Advisers Act of 1940, as amended (the "Investment Advisers Act"), or a "qualified purchaser" or a "knowledgeable employee," as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended (the "Investment Company Act"); and (3) a "United States person" as defined in the Internal Revenue Code of 1986, as amended (the "Code"). There will be no public offering of Interests, no trading market for the Interests will develop and the Interests will be subject to substantial restrictions on transfer.

Pursuant to the Partnership Agreement, the General Partner is entitled to receive an incentive allocation based upon the increase in value of the Fund. There are certain risks to investors associated with performance fees. (See "Certain Risk Factors – Management Fees and Incentive Allocation".)[12]

IMPORTANT INFORMATION REGARDING THIS CONFIDENTIAL MEMORANDUM

This Confidential Memorandum, including the exhibits hereto, is confidential. By accepting delivery of this Confidential Memorandum, the recipient agrees not to reproduce or disclose any of its contents to any person, other than the potential investor's spouse, employees and professional advisors, without the prior written consent of the General Partner. The recipient further agrees promptly to return this Confidential Memorandum and all related documents, without retaining any copies thereof, in the event that the potential investor does not purchase any Interests, if the prospective investor's subscription is not accepted, or if the offering is terminated. Notwithstanding the foregoing, each potential investor (and each spouse employee, representative or other agent of the potential investor) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of an investment in the Fund and all materials of any kind (including opinions or other tax analysis) that are provided to the potential investor relating to such tax treatment and tax structure (as such terms are defined in Treasury Regulation Section 1.6011-4).

This Confidential Memorandum contains forward-looking statements based on the experience of the General Partner and the Investment Manager and expectations about the markets in which the Fund intends to invest and the methods by which the General Partner and the Investment Manager expect to invest in those markets. Those statements are sometimes indicated by words such as "expects," "believes," "seeks," "may," "intends," "attempts," "will" and similar expressions. Such forward-looking statements are not guarantees of future performance and are subject to many risks, uncertainties and assumptions that are difficult to predict. Therefore, actual returns could differ materially and adversely from those expressed or implied in any forward-looking statements as a result of various factors. None of the Fund, the General Partner or the Investment Manager undertake any obligation to revise or update any forward-looking statement for any reason.

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12 A key concept of a securities offering document is to include multiple references to important information or key risks. When a discussed topic can be found in greater detail elsewhere in the PPM, a cross-reference to the specific section should be included.

THE SECTION ENTITLED "Certain Risk Factors" IN THIS CONFIDENTIAL MEMORANDUM DISCUSSES SOME OF THE IMPORTANT RISK FACTORS THAT MAY AFFECT THE FUND'S RETURNS. THERE CAN BE NO ASSURANCE THAT THIS CONFIDENTIAL MEMORANDUM DISCUSSES ALL SUCH RISKS. PROSPECTIVE INVESTORS SHOULD CAREFULLY CONSIDER THOSE RISKS, IN ADDITION TO OTHER INFORMATION IN THIS CONFIDENTIAL MEMORANDUM AND THE RESULTS OF THEIR OWN INDEPENDENT REVIEW OF THE FUND, BEFORE DECIDING WHETHER TO INVEST IN THE FUND.[13]

THERE MAY BE CONFLICTS OF INTERESTS BETWEEN THE LIMITED PARTNERS, THE GENERAL PARTNER AND THE INVESTMENT MANAGER. (SEE "Certain Risk Factors – Conflicts of Interest" and "Management – Conflicts of Interest".)

This Confidential Memorandum constitutes a solicitation for offers to purchase rather than an offer to sell. THIS CONFIDENTIAL MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY IN ANY STATE OR OTHER JURISDICTION IN WHICH SUCH AN OFFER OR SOLICITATION IS NOT AUTHORIZED.

Although the information specified in this Confidential Memorandum is believed to be accurate, none of the Fund, the General Partner or the Investment Manager makes any expressed or implied representation or warranty as to the accuracy or completeness of that information. NO PERSON OTHER THAN THE GENERAL PARTNER HAS BEEN AUTHORIZED TO MAKE ANY REPRESENTATION, OR GIVE ANY INFORMATION, WITH RESPECT TO THE FUND, EXCEPT THE INFORMATION CONTAINED IN THIS CONFIDENTIAL MEMORANDUM AND IN OTHER DOCUMENTS DISTRIBUTED BY THE GENERAL PARTNER, AND ANY SUCH REPRESENTATIONS OR INFORMATION, IF GIVEN, MAY NOT BE RELIED UPON.[14]

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13 Risk factors are intended to convey the major areas of risk that an investor may face when investing in a fund. Risk factors need not (and cannot) be an exhaustive enumeration of all potential risks or potential obstacles that the fund may encounter. Rather, the risk factors provide a roadmap of key considerations that an investor should consider. Of utmost importance is that the risk factors be tailored to the strategy and structure of the fund. Generalized risk factors, while important and necessary, are insufficient if not accompanied by thorough disclosure of risk exposure specific to the fund.

14 While this clause attempts to mitigate statements conflicting with the PPM by telling the investor they cannot rely upon them, the effectiveness of this type of language in a court proceeding is uncertain. Any statement made by a representative of a hedge fund to a prospective investor concerning the offering, whether verbal or written, has the potential to be construed as a representation, warranty, or material misstatement.

Fund sponsors have to be just as careful when crafting statements in marketing material, presentations and email as they would be when making disclosures in the PPM. Your investment fund counsel should review all marketing material prior to circulation. Marketing material should bear legends instructing investors to make investment decisions based on the PPM.

IT IS EXPECTED THAT EACH POTENTIAL INVESTOR WILL PURSUE AN INDEPENDENT INVESTIGATION REGARDING THE FUND AND AN INVESTMENT IN THE INTERESTS. Prospective investors and/or their advisers, upon request to the General Partner, will be furnished with or will be able to obtain all financial, business and other information with respect to the Fund and its proposed business if available without unreasonable effort or expense. (See "Access to Information".)

The description in this Confidential Memorandum of certain terms of the Fund's Partnership Agreement and the other agreements referred to in this Confidential Memorandum are summaries only, and do not purport to be complete. These summaries may omit information significant to a particular prospective investor. These summaries are qualified by reference to the complete versions of the agreements, and potential investors are urged to review these agreements carefully. A copy of the Fund's Partnership Agreement and of the Subscription Agreement that each investor will be required to sign are attached as exhibits to this Confidential Memorandum, and copies of the other agreements referred to in this Confidential Memorandum are available upon request from the General Partner.

Information specified in this Confidential Memorandum is as of the date of this Confidential Memorandum. Neither the delivery of this Confidential Memorandum nor any transaction entered into as a result of this Confidential Memorandum shall create, in any circumstance, the implication that there has been no change in any information specified in this Confidential Memorandum after the date specified on the front cover of this Confidential Memorandum.

THE CONTENTS OF THIS CONFIDENTIAL MEMORANDUM SHOULD NOT BE CONSIDERED TO BE LEGAL OR TAX ADVICE, AND PROSPECTIVE INVESTORS SHOULD CONSULT WITH THEIR OWN COUNSEL AND ADVISERS AS TO ALL MATTERS CONCERNING AN INVESTMENT IN THE INTERESTS.[15]

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15 Under the Employee Retirement Income Security Act of 1974 ("ERISA"), a hedge fund becomes subject to significant increased regulatory: obligations and fiduciary liability if more than 25 percent of the fund's assets under management are subject to ERISA.

In calculating the ERISA percentage of assets under management, all assets owned by the general partner or its affiliates is excluded from the denominator. The calculation must be made on a class-by-class basis, so that in a multi-class fund, if any class holds more than 25% of the assets under management, the entire fund becomes a plan asset fund. The Internal Revenue Code of 1986 and the Pension Protection Act of 2006 present additional issues for fund managers that are ERISA plan asset funds.

The Fund reserves the right to withdraw this offering at any time prior to the acceptance of investor subscription agreements and to terminate the offering of Interests any time thereafter. The Fund further reserves the right to accept or reject in its sole and absolute discretion and for any reason whatsoever, any offer by an investor to purchase securities.

FIDUCIARIES OF EMPLOYEE BENEFIT PLANS SUBJECT TO THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), SHOULD CONSIDER WHETHER INVESTMENT IN THE FUND IS PRUDENT AND OTHERWISE IN COMPLIANCE WITH ERISA. THE GENERAL PARTNER INTENDS TO RESTRICT ADMISSION OF LIMITED PARTNERS AND THE TRANSFER OF INTERESTS SO THAT EMPLOYEE BENEFIT PLANS WILL NOT HOLD, DIRECTLY OR INDIRECTLY, 25% OR MORE OF THE INTERESTS.

I**RS CIRCULAR 230 NOTICE:** THE INFORMATION CONTAINED IN THIS CONFIDENTIAL MEMORANDUM AS TO U.S. FEDERAL TAX MATTERS IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING U.S FEDERAL TAX PENALTIES. SUCH INFORMATION IS PROVIDED TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED IN THIS OFFERING DOCUMENT. YOU SHOULD SEEK ADVICE BASED ON YOUR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

NOTICE TO RESIDENTS OF FLORIDA:

UPON THE ACCEPTANCE OF FIVE (5) OR MORE FLORIDA INVESTORS, AND IF THE FLORIDA 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 FLORIDA INVESTOR ACKNOWLEDGES THAT ANY SALE OF AN INTEREST TO THE FLORIDA INVESTOR IS VOIDABLE BY THE FLORIDA INVESTOR EITHER WITHIN THREE DAYS AFTER THE FIRST TENDER OF CONSIDERATION IS MADE BY THE FLORIDA INVESTOR TO THE ISSUER, OR AN AGENT OF THE ISSUER, OR WITHIN THREE DAYS AFTER THE AVAILABILITY OF THAT PRIVILEGE IS COMMUNICATED TO THE FLORIDA INVESTOR, WHICHEVER OCCURS LATER. [16]

[End of section excerpt. This section has been significantly shortened for use in this sample]

16 State legends contain specific state securities requirements and restrictions specific to investors residing in a given state. Many of the state restrictions found in state legends, particularly those that add requirements for purchaser eligibility, are not applicable to Regulation D Rule 506 offers, since Rule 506 offers preempt state law. However, a number of state legends, including the Florida legend, contain important restrictions and disclosures required by state law.