



ALTERNATIVES INVESTMENT
PROGRAM

2 RISK FACTORS DISCLOSURE STATEMENT

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Prospective investors should consider carefully the following factors in addition to the other information contained in the Description Statement and the Receipt and Agreement (collectively, the “Disclosure Documents”) before making an investment in United Church Funds’ (UCF) Alternatives or Alternatives Balanced portfolios (each a “fund”). When used in this Risk Factors Disclosure, the words “believes,” “anticipates,” “expects” and similar expressions are intended to identify forward-looking statements. Such statements are subject to a number of risks and uncertainties. Actual results in the future could differ materially from those described in the forward-looking statements as a result of the risk factors set forth below and the matters set forth in the Disclosure Documents generally. UCF undertakes no obligation to update these forward-looking statements to reflect any future events or circumstances. The Risk Factors set forth below do not describe all the risks associated with an investment in a fund.

The risk factors are grouped into risks associated with an investment in the fund, risks associated with an investment in the hedge funds, real estate funds, and real asset funds (the “Private Funds”) and other investments in which the funds may invest, and general management risks.

FUND RISKS

Lack of Performance History

The fund recently was established and, thus, has limited performance history. The successful investment of the Fund’s assets will depend, among other things, upon the skills of the professional personnel of UCF, and the managers of the Private Funds. There can be no assurance that any such person will continue to serve in their current position or continue to be employed by UCF or such Private Fund, as the case may be. Furthermore, the past investment performance of entities with which any such person has been associated should not be construed as an indication of future results of any investment in the fund.

Reliance on UCF

The fund is managed by UCF. Investors in the fund have no right to make decisions with respect to the management, disposition or other realization of any investment, or other decisions regarding the Fund’s business and affairs. Consequently, the success of the fund depends upon, in addition to the skill of the managers of the Private Funds, the skill and expertise of UCF’s personnel. UCF personnel does not spend all of its professional time managing the fund. All decisions with respect to the management of the fund are made exclusively by UCF.

Multiple Fees and Expenses

Investors will pay certain expenses of the fund and will indirectly bear the fees (e.g., management fees to the managers of the Private Funds) and expenses of the Private Funds. This will result in greater expense and lesser return on investment than if such fees were not charged. Existence of a carried interest or incentive allocation could cause managers to take risks with investors’ capital that the managers otherwise might not take.

Limits on Withdrawals

Subject to certain limitations described below, investors in the fund generally have the right to withdraw all or any portion of their investment on the last day of each quarter by giving UCF at least 100 days’ advance written notice. Payment of the withdrawal proceeds (excluding those attributable to illiquid investments, as set forth below) generally will be made within 30 days after the effective withdrawal date.

The right of any investor in the fund to withdraw its investment is subject to the ability of UCF to sell, redeem or liquidate an appropriate portion of its investments in the Private Funds, all of which are illiquid. UCF, to the extent necessary to satisfy withdrawal requests, will liquidate an appropriate percentage of its investments at the earliest date permissible under the terms of such investments. If UCF is unable to withdraw sufficient funds from the underlying illiquid investments in order to satisfy withdrawal requests, UCF will pay withdrawal proceeds within two weeks of such funds being made available to UCF. Actual amounts distributed are subject to the provision by UCF for fund expenses. Until UCF receives

the redemption proceeds from illiquid underlying Private Funds, UCF will continue to participate in profits, losses and fees, including management fees, associated with the portion of its investment in underlying Private Funds. Until UCF receives the redemption proceeds from illiquid underlying Private Funds, the assets in the underlying Private Funds that have not yet been fully redeemed will remain subject to market risk. Upon receiving a redemption request from UCF on behalf of the fund, certain underlying Private Funds may segregate assets being redeemed into a share class separate from its other investable assets. UCF's continuing participation in such underlying Private Funds will be limited to its pro rata interest in the redemption share class of the underlying Private Fund. The performance of a redemption share class may vary greatly from the performance of other share classes in the underlying Private Fund.

Determination of Value of an Interest in the Fund

The value of an interest in the fund will be determined by UCF as of the close of the last business day of each quarter and at such other times as determined by UCF. Investors in the fund may only withdraw their investment at the value determined on the withdrawal date after a withdrawal request is timely received by UCF in proper form. The value of an interest in the fund will fluctuate; and the value on a withdrawal date may be higher or lower than the value as of the date a withdrawal request is submitted to UCF.

Risks Upon Substantial Redemptions

If investors in the fund simultaneously request to redeem substantial investments in the fund, UCF may be forced to redeem interests in Private Funds at a time when UCF does not consider it desirable to do so, or UCF may have to redeem interests in a Private Fund at a lower price than could be obtained if UCF were not required to redeem Private Funds interests at that time or in such amounts.

Claims May Be Satisfied With Fund Assets

The assets of the fund will not be segregated in separate legal entities and, instead, may be deemed to be assets of UCF. Therefore, parties with claims against UCF may seek to satisfy those claims with the assets of the fund.

Current Income

UCF intends to reinvest any income generated by the fund and does not intend to make distributions of income or capital gains to investors.

Distributions in Kind

If the fund receives distributions of securities from any of the Private funds, it may incur additional costs and risks to dispose of those securities. In addition, although the fund plans generally to dispose of any freely tradeable securities it receives as soon as practicable, subject to such sale being carried out in an orderly manner, there can be no assurance that UCF will be able to do so. As a consequence, pending any such disposition, the fund will be subject to market risks inherent in holding such securities.

Unequal Allocation of the Fund's Overall Portfolio

UCF will make reasonable efforts to ensure that each investor's allocation of fund assets reflects approximately the fund's overall allocation of investments. However, due to differences in the timing of investment in the fund, each investor's allocation of fund assets may differ materially from the fund's overall allocation of asset types, and this may result in material differences between the returns and in the diversification of risks of each investor, with respect to other investors individually, and with respect to the fund as a whole.

Registration of the Fund and Private Funds

Neither the fund nor the Private Funds are registered under the Investment Company Act of 1940, as amended. The Investment Company Act provides many protections to investors that are not applicable to the investors in the fund or to UCF as an investor in the Private Funds and imposes certain restrictions on registered investment companies, none of which are applicable to the fund or the Private Funds.

Registration of UCF

UCF is not registered as an investment advisor under the Investment Advisers Act of 1940, as amended (the “Advisers Act”), and is consequently not subject to the recordkeeping, disclosure and other fiduciary obligations specified under the Advisers Act.

Independent Private Fund Managers

UCF expects that the managers of the Private Funds in which the fund invests, invest wholly independently of one another and may at times hold economically offsetting positions. To the extent that the Private Funds do, in fact, hold such positions, the fund, considered as a whole, could not achieve any gain or loss despite incurring expenses.

Fund Valuation

Investments in Private Funds generally are valued in accordance with the methods provided by the instruments governing such Private Funds. These valuations may be provided by the manager of a Private Fund to the fund based on the interim unaudited financial records of the Private Fund and, therefore, is subject to adjustment upon the auditing of such financial records. If an investor in the fund makes a withdrawal from the fund, subsequent adjustments to valuations of one or more Private Funds may occur and there is a risk that such investor may receive an amount upon withdrawal which is greater or less than the amount such investor would have been entitled to receive on the basis of the adjusted valuation.

No Custody of Fund Allocations

When part of the fund is allocated to a Private Fund, the fund does not have custody of the underlying securities. Although UCF conducts due diligence on underlying investment funds, there is always the risk that the investment funds could mishandle or convert the securities in their custody.

RISKS OF UNDERLYING INVESTMENTS

Investment Risks in General

The profitability of the fund’s investments depends to a great extent on the underlying investment’s manager’s correct assessments of the future course of price movements of securities and other instruments. There is no assurance that these managers will be able to accurately predict these price movements. The securities markets have been characterized by great volatility and unpredictability in past years. Despite the goal of producing absolute returns with low correlation, there is likely to be a significant degree of market risk assumed by one or more of the Private Fund managers. UCF expects that the Private Funds utilize highly speculative investment techniques, including leverage, highly concentrated portfolios, senior securities positions, control positions and illiquid investments. The Private Funds may utilize derivative instruments to attempt to hedge the risks associated with certain of their investments. Such derivative transactions may expose the assets of such Private Funds to the risks of material financial loss, which may in turn adversely affect the performance of the fund.

Management Risk

The Private Fund managers’ strategies may fail to produce the intended results. There also is the risk that investment techniques employed by the Private Fund managers may not result in an increase in the value of the fund.

Equity Securities Risk

Through its investments, the Private Funds will be exposed to equity securities risk. The prices of stocks can rise or fall rapidly in response to developments affecting a specific company or industry, or to changing economic, political or market conditions. The Private Funds’ investments may decline in value if the stock markets perform poorly. There is also a risk that the Private Funds’ investments will underperform either the securities markets generally or particular segments of the securities markets.

ETF Risks

In addition to the risks generally associated with investments in other investment companies, exchange-traded funds (“ETFs”) in which the Private Funds may invest are subject to the following risks — (1) the market price of an ETF’s shares may trade above or below its net asset value; (2) an active trading market for an ETF’s shares may not develop or be maintained; (3) the ETF may employ an investment strategy that utilizes high leverage ratios; or (4) trading of an ETF’s shares may be halted if the listing exchange’s officials deem such action appropriate, the shares are de-listed from the exchange, or the activation of market-wide “circuit breakers” (which are tied to large decreases in stock prices), halts stock trading generally.

Closed-End Fund Risk

The amount of public information available about closed-end funds generally is less than for open-end mutual funds. Consequently, to the extent the fund invests in Private Funds that invest in closed-end funds, the Private Funds managers may make investment decisions based on information that is incomplete or inaccurate. In addition, because closed-end funds are not redeemable at the holder’s option, such funds typically trade primarily on the secondary market. The secondary market for non-exchange listed funds tends to be less liquid, which may adversely affect a Private Fund’s ability to sell its securities at attractive prices. In addition, such securities may be subject to increased price volatility. The market price of a closed-end fund’s shares may be affected by its dividend or distribution levels (which are dependent, in part, on expenses), stability of dividends or distributions, general market and economic conditions, and other factors beyond the control of a closed-end fund. The foregoing factors may result in the market price of the shares of the closed-end fund being greater than, less than, or equal to, the closed-end fund’s net asset value. This means that a closed-end fund’s shares may trade at a discount to its net asset value. Another risk generally associated with closed-end funds is that most closed-end funds leverage their assets in the attempt to enhance their yield at the expense of increased volatility.

Volatility Risk

Equity securities tend to be more volatile than other investment choices. The value of an individual security can be more volatile than the market as a whole. This volatility affects the net asset value of a Private Fund and, thus, the value of the fund.

Small- and Mid-Cap Risk

To the extent a Private Fund holds securities of small- or mid-cap companies, the Private Fund is subject to additional risks including —

- The earnings and prospects of smaller companies are more volatile than larger companies.
- Smaller companies may experience higher failure rates than do larger companies.
- The trading volume of securities of smaller companies is normally less than that of larger companies and, may disproportionately affect their market price, tending to make them fall more in response to selling pressure than is the case with larger companies.
- Smaller companies may have limited markets, product lines or financial resources and may lack management experience.

Hedging

The Private Funds engage in hedging and other risk management strategies and techniques that could involve a variety of derivative transactions. While these transactions attempt to reduce risk, they may entail other risks that become especially pronounced during periods of market volatility. Thus, while a Private Fund may benefit from the use of hedging, such fund may experience a material financial loss or worse, overall performance than it would have if it had not entered into any transaction involving such instruments; due to unanticipated changes in interest rates, securities prices or currency exchange rates. If such material financial loss or worse overall performance occurs, the overall return on investment realized by a Private Fund, directly, and the fund and its investors, indirectly, may be less than if the Private Fund had not entered into such hedging transaction.

Risks Inherent in International Investments

Certain of the Private Funds may make international investments, including investments in emerging markets. International investments involve certain additional risks, including fluctuations in foreign exchange rates, different legal systems and the existence or possible imposition of exchange controls or other foreign or US government laws or restrictions applicable to such underlying investments. Investments in different countries are subject to different economic, financial, political and social factors. Because certain of the Private Funds may invest in securities denominated in currencies other than the US dollar, changes in foreign currency exchange rates may affect the value of securities owned by such funds. With respect to certain countries, there may be the possibility of expropriation of assets, confiscatory taxation, high rates of inflation, political, social and/or economic instability, changes in laws and rules or in interpretations thereof, or diplomatic developments that could adversely affect investments, or result in a total loss of investments, in issuers in those countries. These risks may be heightened in developing economies.

In addition, some of the Private Funds may be subject to withholding and other taxes imposed by non-US countries in which such funds make underlying investments, and may be subject to reporting requirements in those countries. Those taxation and reporting requirements could also extend to investors in the fund, although UCF is not aware of any such requirements that would apply directly to investors solely as a result of their investment in the fund. If tax conventions between certain countries and the US do not reduce or eliminate such taxes, imposition of foreign withholding and other taxes may serve to reduce the overall return on investment realized by investors in the fund. In addition, investors may be unable to claim a credit or deduction against US federal income tax liability for the portion of any foreign tax that, upon submission of proper documentation, would have been reduced or refunded to the investor by the non-US country.

It is likely there is less publicly available information about foreign companies than about US companies, and foreign companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to those to which US companies are subject. Further, satisfactory custodial services for investment securities may not be available in certain countries. In addition, certain countries in which the Private Funds may invest may not have a comprehensive system of laws protecting the rights and interests of investors (particularly foreign investors), and the enforcement of existing laws may be inconsistent. The profitability of foreign investments also may be impacted by regulatory burdens, such as lengthy regulatory approval processes and strict environmental regulations. Some countries prohibit or impose substantial restrictions on investments in their countries by foreign entities. Certain countries also may limit the ability of the Private Funds to dispose of underlying investments by requiring regulatory approvals prior to such disposition or by other means, including limiting the ability to convert local currencies. Any of these issues relating to investments in foreign companies that apply to investments or attempted hedge investments may reduce the overall return on investment realized by the Private Funds, directly, and the fund and its investors, indirectly, compared to foreign investments by the Private Funds without such issues.

Offshore Investment Risks

The fund may include investments in Private Funds organized under the laws of countries other than the US. As a result, the Private Fund and its investors (including the fund) could be subject to US taxes from investments in the US, foreign taxes or withholding by any such non-US jurisdiction. In addition, the laws of such foreign jurisdiction may not respect the limited liability of the Private Fund's investors.

Lack of Operating History

Certain Private Funds in which the fund may invest may have only recently commenced operations and, accordingly, may have no operating history upon which UCF may evaluate their past performance. The past performance of previous investments of managers of these newly organized Private Funds cannot be relied upon as indicators of the performance or success of these Private Funds.

Availability of Investment Opportunities

The success of each Private Fund depends on the availability of appropriate investment opportunities and the ability of its investment manager to identify, select, develop, consummate and achieve liquidity in appropriate investments. The availability of investment opportunities are generally subject to market conditions. There can be no assurance that suitable investments will be available or selected by the Private Fund managers, or that the Private Funds will be able to invest fully their committed capital within their investment period(s). To the extent that any portion of such committed capital is not invested, the potential for return of the fund, directly, and its investors, indirectly, may be diminished.

Short Sales

Private Funds may engage in short sales, which involve selling a security that the Private Fund does not own or, if the Private Fund does own such security, it is not to be delivered upon consummation of the sale. A short sale is “against the box” to the extent that a fund contemporaneously owns or has the right to obtain securities identical to those sold short. A fund may enter into a short sale to hedge against anticipated declines in the market price of securities held by the fund or to reduce portfolio volatility. If the value of a security sold short increases prior to the scheduled delivery date, the fund loses the opportunity to participate in the gain. If the price declines during this period, the fund will realize a gain. Although the fund’s gain is limited by the price at which it sold the security short, its potential loss is unlimited.

Leverage by the Private Funds

The use of leverage, which exposes the borrower to changes in price at a ratio higher than the amount invested, magnifies both the favorable and unfavorable effects of price movements in the investments made by the Private Funds. Certain of the Private Funds may have significant leverage. The leveraged capital structures of such Private Funds will increase exposure to adverse economic factors such as rising interest rates, downturns in the economy and/or deterioration in the condition of the company or its industry. Such increased exposure to adverse economic factors may decrease the overall return on investment realized by the fund and, ultimately, its investors, from the overall return on investment than may have been realized if leveraged capital structures had not been used by the Private Fund.

Soft Dollars

Private Fund managers allocate brokerage business generally on the basis of best available execution and in consideration of such brokers’ provision of brokerage and research services. In selecting brokers or dealers to execute transactions, a Private Fund manager may not necessarily solicit competitive bids and may not have an obligation to seek the lowest available commission cost. It may not be the practice of a Private Fund’s manager to negotiate “execution only” commission rates and, thus, the Private Fund may be deemed to be paying for research and other services provided by the broker which are included in the commission rate. Research furnished by brokers may include, but is not limited to, written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; financial publications; statistical and pricing services; and discussions with research personnel, along with hardware, software, databases and other technical and telecommunication services and equipment used in the investment management process. Research services obtained by the use of commissions arising from such Private Fund’s transactions may be used by its manager in its other investment activities. Private Fund managers may also be paying for services other than research which are included in the commission rate. These other services may include, among other things: office space, facilities and equipment; administrative and accounting support; investment personnel; supplies and stationery; telephone lines, usage and equipment; and other items which might otherwise be treated as an expense of the Private Fund manager. To the extent a manager uses commissions to obtain items which would otherwise be an expense of the manager, such use of commissions in effect constitutes additional compensation to the manager. Certain of these commission arrangements are outside the parameters of Section 28(e) of the Securities Exchange Act of 1934, as amended, which permits the use of commissions or “soft dollars” to obtain “research and execution” services.

Options

The Private Funds may purchase and sell (“write”) options on securities, currencies and commodities on national and international exchanges and over-the-counter markets. The seller (“writer”) of a put option which is covered (e.g. the writer has a short position in the underlying instrument) assumes the risk of an increase in the market price of the underlying instrument above the sales price (in establishing the short position) of the underlying instrument, plus the premium received, and gives up the opportunity for gain on the underlying instrument below the exercise price of the option. If the seller of the put option owns a put option covering an equivalent amount of the instrument with an exercise price equal to or greater than the exercise price of the put written, the position is “fully hedged” if the option owned expires at the same time or later than the option written. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying instrument below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option. If the buyer of the put holds the underlying instrument, the loss on the put will be offset in whole or in part by any gain on the underlying instrument.

The seller of a call option which is covered (e.g. the seller has a long position in the underlying instrument), assumes the risk of a decline in the market price of the underlying instrument below the value of the underlying instrument less the premium received, and gives up the opportunity for gain on the underlying instrument above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying instrument above the exercise price of the option. The buyer of a call option assumes the risk of losing its entire investment in the call option. If the buyer of the call sells short the underlying instrument, the loss on the call will be offset, in whole or in part, by any gain on the short sale of the underlying instrument.

Options may be cash settled, settled by physical delivery or by entering into a closing purchase transaction. In entering into a closing purchase transaction, the Private Fund may be subject to loss to the extent that the premium paid for entering into such closing purchase transaction exceeds the premium received when the option was written.

Futures Contracts

Private Funds may enter into futures contracts and options for hedging or speculative purposes. Private Funds may use interest rate or index futures contracts as a defense, or hedge, against anticipated interest rate or market changes or for speculation. This includes the use of futures contract sales to protect against expected increases in interest rates and futures contract purchases to offset the impact of interest rate declines.

Although futures contracts by their terms call for actual delivery or acceptance of securities, in most cases the contracts are closed out before the settlement date without the making or taking of delivery of securities. Closing out a futures contract sale is effected by the Private Fund entering into a futures contract purchase for the same aggregate amount of the specific type of financial instrument and the same delivery date. If the price of the sale exceeds the price of the offsetting purchase, the Private Fund is immediately paid the difference and thus realizes a gain. If the offsetting purchase price exceeds the sale price, the Private Fund pays the difference and realizes a loss. Similarly, the closing out of a futures contract purchase is effected by the Private Fund entering into a futures contract sale. If the offsetting sale price exceeds the purchase price, the Private Fund realizes a gain, and if the purchase price exceeds the offsetting sale price, the Private Fund realizes a loss.

There are several risks in using futures contracts as a hedging device. One risk arises because the prices of futures contracts may not correlate perfectly with movements in the underlying interest rate or index due to certain market distortions. First, all participants in the futures market are subject to initial margin and variation margin requirements. Rather than making additional variation margin payments, investors may close the contracts through offsetting transactions which could distort the normal relationship between the interest rate and futures markets. Second, the margin requirements in the futures market are lower than margin requirements in the securities market, and as a result the futures market may attract more speculators than does the securities market. Increased participation by speculators in the futures market also may cause temporary price distortions. Because of price distortion in the futures market and because of imperfect correlation between movements in interest rates and movements in prices of futures contracts, even a correct forecast of general market trends may not result in a successful hedging transaction over a short period.

Another risk arises because of imperfect correlation between movements in the value of the futures contracts and movements in the value of securities subject to the hedge. If this occurred, a Private Fund could lose money on the contracts and also experience a decline in the value of its portfolio securities. It also is possible that if the Private Fund has hedged against a decline in the value of the stocks held in its portfolio and stock prices increase instead, the Private Fund will lose part or all of the benefit of the increased value of its stock which it has hedged because it will have offsetting losses in its futures positions. In addition, in such situations, if the Private Fund has insufficient cash, it may have to sell securities to meet daily variation margin requirements. Such sales of securities may be, but will not necessarily be, at increased prices which reflect the rising market. The Private Fund may have to sell securities at a time when it may be disadvantageous to do so.

Risks Associated with Hybrid Funds

Certain Private Funds may be operated as “hybrid” funds with the ability to invest in both liquid and illiquid equity or debt securities. Such Private Funds may offer one class of interests with terms that reflect profit-sharing, funding and other arrangements generally similar to a private equity fund and another class with terms that provide greater liquidity and other arrangements typical of hedge funds. Due to differences in the timing of admission to the Private Fund, each investor’s allocation of underlying fund assets may differ materially from the Private Fund’s overall asset allocation, and this may result in material differences between returns and risk levels of individual investors and the underlying fund as a whole. Liquidity of the Private Fund or certain classes thereof could be limited and the Private Fund could be forced to either sell certain investments at inopportune times or to borrow against underlying fund assets to provide liquidity. The manager or general partner of the Private Fund may have broad discretion to make valuation, liquidity, allocation and distribution decisions, over which UCF will have no control or input.

Forward Trading

Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardized; rather banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and “cash” trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market traded by an underlying investment fund due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward (and futures) trading to less than that which a Private Fund would otherwise recommend, to the possible detriment of the fund. Market illiquidity or disruption could result in major losses to a Private Fund and, thus, the fund.

Counterparty Risk

Many of the markets in which the Private Funds effect their transactions may be “over-the-counter” or “inter-dealer” markets. The participants in these markets are typically not subject to credit evaluation and regulatory oversight as are members of “exchange-based” markets. When a Private Fund invests over-the-counter transactions (including options), it is assuming a credit risk with regard to parties with which it trades and also bears the risk of settlement default. These risks may differ materially from those associated with transactions effected on an exchange, which generally are backed by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered into directly between two counterparties generally do not benefit from such protections. This exposes the Private Fund 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 Private Fund to suffer a loss.

Counterparty risk is accentuated in the case of contracts with longer maturities where events may intervene to prevent settlement, or where the Private Fund has concentrated its transactions with a single or small group of counterparties. The Private Funds generally are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. The ability of a Private Fund to transact business with any one or number of counterparties, the lack of any independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by such Private Fund.

Real Estate Risk

When a Private Fund invests in real estate, it is subject to (1) possible declines in the value of real estate, (2) adverse general and local economic conditions, (3) possible lack of availability of mortgage funds, (4) changes in interest rates, and (5) environmental problems. When a Private Fund invests in real estate investment trusts ("REITs"), it is subject to additional risks related specifically to their structure and focus such as: (a) dependency upon management skills; (b) limited diversification; (c) the risks of locating and managing financing for projects; (d) heavy cash flow dependency; (e) possible default by borrowers; (f) the costs and potential losses of self-liquidation of one or more holdings; (g) the possibility of failing to maintain exemptions from securities registration; and (h) in many cases, relatively small market capitalization, which may result in less market liquidity and greater price volatility.

Fixed Income Securities Risks

To the extent a Private Fund invests in fixed income securities, it will be subject to the following risks —

- **Credit Risk:** The issuer of a fixed income security may not be able to make interest and principal payments when due. Generally, the lower the credit rating of a security, the greater the risk that the issuer will default on its obligation.
- **Change in Rating Risk:** If a rating agency gives a debt security a lower rating, the value of the debt security will decline because investors will demand a higher rate of return.
- **Interest Rate Risk:** As nominal interest rates rise, the value of fixed income securities held by the fund or an underlying investment fund is likely to decrease. A nominal interest rate is the sum of a real interest rate and an expected inflation rate. Inflation-indexed securities, including Treasury Inflation-Protected Securities (TIPS), decline in value when real interest rates rise. In certain interest rate environments, such as when real interest rates are rising faster than nominal interest rates, inflation-indexed securities may experience greater losses than other fixed income securities with similar duration.
- **Duration Risk:** Prices of fixed income securities with longer effective maturities are more sensitive to interest rate changes than those with shorter effective maturities.
- **Prepayment and Extension Risk:** As interest rates decline, the issuers of securities held by the fund or an underlying investment fund may prepay principal earlier than scheduled, forcing the fund or underlying fund to reinvest in lower yielding securities. As interest rates increase, slower than expected principal payments may extend the average life of fixed income securities, locking in below-market interest rates and reducing the value of these securities.

Royalty Trust/Master Limited Partnership Risk

Investments in royalty trusts and/or master limited partnerships are subject to various risks related to the underlying operating companies controlled by such trusts or master limited partnerships, including dependence upon specialized management skills and the risk that such companies may lack or have limited operating histories. The success of the fund's investments also varies depending on the underlying industry represented by the master limited partnership's or royalty trust's portfolio. For example, if UCF invests the fund in oil royalty trusts or master limited partnerships that invest in oil and gas companies, its return on the investment will be highly dependent on oil and gas prices, which can be highly volatile. Conversely, royalty trusts or master limited partnerships that invest in real estate, typically are subject to risks similar to those of a REIT. Unlike ownership of common stock of a corporation, UCF has limited voting rights and no ability annually to elect directors in connection with its investment in a master limited partnership or a royalty trust.

Commodities Risk

UCF and the underlying funds may invest in publicly traded master limited partnerships, ETFs, and other investment companies that are subject to commodities risks based upon their underlying investments. To the extent that UCF or an underlying fund invests in commodities-related investments, it is subject to additional risks. In general, these investments may be subject to greater volatility, depend upon specialized management skills and may lack or have limited operating histories. For example, the value of ETFs that invest in commodities, such as gold, silver, oil or agricultural products, are highly dependent on the prices of the related commodity. The demand and supply of these commodities may fluctuate widely based on such factors as interest rates, investors' expectation with respect to the rate of inflation, currency exchange rates, the production and cost levels of the producing countries and/or forward selling by such producers, global or regional political, economic or financial events, purchases and sales by central banks, and trading activities by hedge funds and other commodity funds. Commodity ETFs may use derivatives, such as futures, options and swaps, which expose them to further risks, including counterparty risk (i.e. the risk that the institution on the other side of their trade will default).

Non-Diversification Risk

Private Funds may invest a substantial portion of their net assets in a single issuer (not including short positions) as measured at the time of purchase. Therefore, the value of an interest in a Private Fund may be volatile and fluctuate more than an investment in a diversified fund that invests in a broader range or greater number of securities.

Concentration/Industry Risk

Private Funds may invest a substantial portion of their net assets in a single industry (not including short positions) as measured at the time of purchase, and therefore may have overweighted positions in particular industries. A particular industry can be more volatile or underperform relative to the market as a whole. To the extent that a Private Fund has overweighted holdings within a particular industry, the Private Fund is subject to an increased risk that its investments in that particular industry may decline because of changing expectations for the performance of that industry.

Turnover Risk

The Private Funds are actively managed and their portfolio turnover rate may be extremely high. A higher rate of portfolio turnover increases brokerage and other expenses.

Performance-Based Compensation; Arrangements with Private Funds

UCF will invest the fund in Private Funds that provide for compensation, in whole or in part, based on the appreciation in value (including unrealized appreciation) of the account during specific measuring periods. In certain cases, Private Fund managers may be paid a fee based on appreciation during the specific measuring period without taking into account losses occurring in prior measuring periods, although UCF anticipates that Private Fund managers who charge such fees will take into account prior losses. These fee arrangements may create an incentive for such Private Fund managers to make investments that are riskier or more speculative than would be the case in the absence of such performance-based compensation arrangements. In addition to the foregoing, the fund may be required to pay an incentive fee or allocation to the Private Fund managers who make a profit for the fund in a particular fiscal year, even though the fund may, in the aggregate, incur a net loss for such fiscal year.

Unrelated Trade or Business Income

The fund anticipates that it may incur income that would qualify as unrelated business taxable income ("UBTI") under the Internal Revenue Code due to the "flow-through" nature of certain investments that may be made by certain of the Private Funds. Investors in the fund could realize UBTI if, for example, a Private Fund purchased a partnership interest or limited liability company interest in an operating business or borrowed funds to purchase or carry any of its investments. In this regard, because certain of the Private Funds may invest in partnerships, limited liability companies or other operating assets, and may use leverage in the purchase of securities, it can be anticipated that such funds will generate UBTI, which would be taxable to tax-exempt investors in the fund. Also, the fund may incur indebtedness that could also result in UBTI. In addition, in the event that the management fee payable by any Private Fund is reduced to reflect certain fees paid to the manager of such Private Fund or its affiliate, the Private Fund may take the position that its investors, including the fund, do not share in UBTI from this fee income by virtue of the reduction in such management fee. However, if the Internal

Revenue Service (the “IRS” or the “Service”) were to take a contrary view, tax-exempt investors in the fund would be required to pay tax on such UBTI. Accordingly, prospective investors that are tax-exempt entities are urged to consult their tax advisors concerning the federal, state and local income and other tax consequences that may result from an investment in the fund.

MANAGEMENT RISKS

Conflicts of Interest of Private Funds and the Fund

Private Fund managers and others affiliated with Private Funds may have conflicts of interest. For example, such persons may be affiliated or have a relationship with a broker-dealer through which a portion of the Private Fund’s transactions are conducted, and such person may receive a portion of the brokerage commissions resulting from such transactions. In addition, such Private Funds may engage in other transactions with affiliated parties on terms and conditions not determined through arm’s-length negotiations. Further, the Private Funds’ managers will be entitled to a fee or allocation based upon a percentage of such Private Funds’ profits, which may induce them to select riskier investments on behalf of the Private Funds than would otherwise be the case. The investors in the fund ultimately bear the risk from such investments by the underlying Private Funds. Certain of the Private Fund managers or their affiliates perform investment advisory services for other investment entities with investment objectives and policies similar to those of the Private Funds. Such entities may compete with the Private Funds for investment opportunities similar to those sought by the Private Funds. Such managers or their affiliates also may invest directly in investments that would be appropriate investments for the Private Funds but will not be offered to the Private Funds. Therefore, the overall return on investment realized by the fund and, ultimately, by its investors, may be less than if the managers of the Private Funds did not make competing investments for other entities or such managers and their affiliates themselves.

Officers of the Private Funds’ Managers Not Full Time; Key Personnel

The investment officers of the Private Funds’ managers typically serve as investment and portfolio managers for multiple funds and other business interests on behalf of the managers. Certain of the Private Funds may rely on key personnel to carry out their investment objectives. The loss of any of such key personnel could have a material adverse effect on the potential performance of such Private Funds and, therefore, the fund and its investors.

Registration of Private Fund Managers

The managers of the Private Funds may not be registered as investment advisors under the Investment Advisers Act of 1940, as amended (the “Advisers Act”), and consequently are not subject to the recordkeeping, disclosure and other fiduciary obligations specified under the Advisers Act. Additionally, the managers of the Private Funds may not be registered as commodity pool operators with the Commodity Futures Trading Commission and consequently such managers are not required to deliver disclosure documents or certified annual reports to UCF.

Lack of Management Control by UCF

UCF does not have the right to participate in the management, control or operation of the Private Funds or to remove the managers thereof. UCF also does not have the opportunity to evaluate the relevant economic, financial and other information utilized by the Private Funds in their selection, structuring, monitoring and disposition of investments. Such lack of management control may cause the overall return on investment realized by UCF and, ultimately, by fund investors, to be less than if UCF had greater management control over the Private Funds.

UCF’s Due Diligence is No Guarantee

UCF’s due diligence may not prevent it from investing fund assets in a Private Fund that performs poorly or engages in fraud. There have been several highly publicized fund failures. While UCF attempts to avoid Private Fund managers it believes have an unacceptable risk profile, there can be no assurance regarding the performance of the Private Funds.

Risk Management Activities

UCF attempts to measure and monitor risks of the Private Funds. The amount and quality of risk due diligence, measurement and monitoring is dependent on access to the Private Funds' information and risk management systems (if any) of the Private Funds' managers. There is no assurance that the Private Fund managers will give access to this data. When this information is unavailable, UCF seeks to estimate investment risk. Efforts to measure and reduce risk may not be successful.

THE FOREGOING LIST OF RISK FACTORS DOES NOT PURPORT TO BE A COMPLETE ENUMERATION OR EXPLANATION OF THE RISKS INVOLVED IN AN INVESTMENT IN THE FUND. PROSPECTIVE INVESTORS SHOULD READ THIS ENTIRE RISK FACTORS DISCLOSURE STATEMENT AND CONSULT WITH THEIR OWN ADVISORS BEFORE DECIDING TO INVEST IN THE FUND.

CERTAIN US FEDERAL AND STATE INCOME TAX CONSIDERATIONS

The following is a summary of certain tax consequences of an investment in the fund. The summary is based, in part, on the Internal Revenue Code of 1986, as amended (the “Code”), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and all subject to change at any time, perhaps with retroactive effect. The fund has not requested or received a ruling from the Service or any other authority or an opinion of legal counsel with respect to any of the tax consequences of an investment in the fund. Thus no assurance can be provided that the federal income tax consequences described below would be sustained by a court if contested by the Service. This summary does not discuss the impact of various proposals to amend the Code and the Treasury Regulations which could change certain of the tax consequences of an investment in the fund. Actual tax consequences will depend on the investments made by the fund, the particular type of Private Fund and the tax consequences to the Private Funds in which the fund invests.

CIRCULAR 230 NOTICE. THE FOLLOWING NOTICE IS BASED ON US TREASURY REGULATIONS GOVERNING PRACTICE BEFORE THE SERVICE: (1) ANY US FEDERAL TAX ADVICE CONTAINED HEREIN, INCLUDING ANY OPINION OF COUNSEL REFERRED TO HEREIN, IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING US FEDERAL TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (2) ANY SUCH ADVICE IS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS DESCRIBED HEREIN (OR IN ANY SUCH OPINION OF COUNSEL); AND (3) PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THEIR PARTICULAR CIRCUMSTANCES UNDER THE CODE AND THE LAWS OF ANY RELEVANT STATE, COUNTY, CITY OR OTHER TAXING JURISDICTION APPLICABLE TO THE ACQUISITION, OWNERSHIP, AND DISPOSITION OF INTERESTS.

UNRELATED BUSINESS TAXABLE INCOME

IN GENERAL

For purposes of this tax discussion, it is assumed that any investor in the fund is exempt from federal income tax under section 501(a) of the Code or by reason of treatment as a church and is not a private foundation within the meaning of section 509(a) of the Code.

It is also assumed that each investor in the fund ordinarily is subject to federal income taxation on its unrelated business taxable income, e.g., income from a trade or business regularly carried on (that is not conducted in furtherance of its exempt purposes), less allocable expenses, so-called “UBTI”. Exceptions exist for certain types of passive income, such as dividends, interest, royalties and capital gains. Under current law, UBTI would generally be subject to federal income taxation at regular tax rates (e.g. up to 35%).

However, if the fund or a Private Fund that is treated as a pass-through entity (i.e. limited liability companies and partnerships) for US federal income tax purposes incurs debt (including margin debt) to acquire or hold an investment, the exception from UBTI for passive income would not apply (“acquisition indebtedness”) and, generally, that amount of income and gain from the investment that bears the same proportion as the adjusted basis of the investment funded with debt would generate UBTI to the investor (until the debt was retired). This can be a complicated computation. If any investor in the fund incurs UBTI, it would have to file an annual Form 990T with the IRS. Of course, there also may be state and local income taxation on such UBTI (see “US, State and Local Taxation” below).

In the case of an investment in a pass-through entity, such as the fund and Private Funds that are treated as pass-through entities for US federal income tax purposes, the UBTI rules are applied by looking through to the entity’s activities, income and debt. Thus, for example, if the fund or such a Private Fund borrowed to make an investment or in order to pay expenses or management fees, a portion of each investor’s income and gain from the fund would be UBTI (so-called “debt UBTI”). Moreover, if the fund or a Private Fund invested directly in a trade or business, such as a partnership engaged in a trade or

business (not just in the stock or debt issued by a corporation), that investment would generate UBTI (so-called “trade or business UBTI”). On the other hand, if a Private Fund invests in a corporation by buying its stock or debt and does not incur debt to fund that investment, there would be no further look-through, i.e. the amount of debt incurred by the portfolio investment corporation would be irrelevant.

CATEGORIES OF PRIVATE FUNDS

Private Funds have different categories and structures that affect the amount of debt and trade or business UBTI potentially recognized by an investor in the fund. Such categories include, but are not limited to, the following: (a) partnerships or limited liability companies organized in the US and taxed as partnerships for US federal income tax purposes; (b) partnerships or limited liability companies, organized in a non-US low or no tax jurisdiction (e.g. the Cayman Islands or the British Virgin Islands) and taxed as partnerships for US federal income tax purposes; (c) foreign corporations and entities treated as corporations for US federal income tax purposes (typically organized in the Cayman Islands or the British Virgin Islands); (d) real estate funds organized as US partnerships or limited liability companies taxed as partnerships for US federal income tax purposes; and (e) REITs. Moreover, each Private Fund, depending, in part on its category, may offer a different structure or approach to (a) tax-exempt investors, such as the investors in the fund, and (b) UBTI.

The fund attempts to report to each investor information as to the portion of its income and gains from the fund for each year, which is treated as UBTI. The calculation of such amount with respect to transactions entered into by the fund and by Private Funds is highly complex, and there is no assurance that the fund’s and the Private Funds’ calculation of UBTI will be accepted by the Service.

Investors in the fund should note that the fund cannot predict or commit to invest only in certain categories of Private Funds that may avoid or minimize UBTI or that the fund will take advantage of any structure or approach offered by a Private Fund that minimizes or eliminates UBTI, to the extent a Private Fund offers such a structure or approach. In general, the fund seeks to maximize the investors’ overall after-tax return, taking into account the possible incurrence by the investors in the fund of UBTI. Investors should understand that in the case of any investment in a Private Fund, the fund generally does not have control over the amount of UBTI that may be generated by such a Private Fund. Also as discussed below (see, “Regular US Tax Income Tax Treatment of Non-US Private Funds”), a Private Fund may be subject to other US income taxes even if it is not subject to UBTI.

The following is a general discussion of the UBTI issues affecting each category of Private Fund listed above and the possible approaches generally adopted by such a Private Fund in dealing with tax-exempt investors and UBTI. The specific approaches and tax consequences depend on the particular Private Fund in which the fund invests.

- a. Domestically Organized Private Funds Taxed as Partnerships or LLCs (Other Than Funds Investing in Real Estate)
 - i. Debt UBTI to the investor in the fund if the Private Fund borrows to make passive investments, such as in stocks and securities (e.g. including temporary or margin debt).
 - ii. Trade or business UBTI to the investor in the fund if the Private Fund invests directly in an operating business or in a “pass-through” entity conducting such business.

In order to avoid UBTI described in i. and ii. above, such a Private Fund may either offer a separate parallel fund for tax-exempt investors, or use “blocker” entities to make investments that would otherwise generate UBTI. A blocker entity ordinarily is a corporation fully subject to US federal income taxation. Such a blocker entity may be organized by the Private Fund to make all investments or used only on an investment-by-investment basis. However, it is possible that if the fund elects to make its investment, directly or indirectly, in a blocker entity, the after-tax return to the fund from such a Private Fund would be less than if the fund had invested directly in the Private Fund and not made its investment using the blocker entity. Also, a Private Fund may minimize the effect of debt UBTI by limiting the amount of debt that may be incurred or by limiting the term of debt that may be incurred.

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- b. Foreign Pass-Through Private Funds, i.e., Partnerships or LLCs
 - i. The UBTI results generally are the same as described in a. regarding domestic pass-through Private Funds, with the exception that a blocker entity may be a foreign corporation not generally subject to UBTI or US income taxation.
 - c. Foreign Corporations or Entities Treated as Such (Typically Organized in the Cayman Islands or the British Virgin Islands)
 - i. No debt or trade or business UBTI because taxes, if any, are paid at the Private Fund level and distributions to the fund (and, therefore, to the investors in the fund) will generally consist of dividends and capital gains
 - ii. Generally, no local taxes on the entity in the Cayman Islands or the British Virgin Islands, and no withholding taxes in those jurisdictions that could reduce the after-tax return to the fund.
 - d. Real Estate Private Funds Organized as Domestic Pass-Through Entities, i.e., Partnerships or LLCs
 - i. To the extent that the Private Fund invests in a REIT, no UBTI because a REIT distributes dividends that are generally exempt from UBTI and no UBTI even if the REIT incurs debt. Also, REITs are generally not taxed provided they meet certain asset and income tests. However, UBTI may apply to dividends from a REIT, directly or indirectly, through the fund to any pension trust that owns more than 10% of the REIT's shares, if the REIT is a so-called "pension-held REIT."
 - ii. To the extent that an investor in the fund is a "qualified trust under section 401" of the Code, the Private Fund could incur acquisition debt without generating UBTI, if the Private Fund qualifies under the so-called "fractions rule" under the Code. Because of the complexity of the fractions rule, it will not be further discussed.
 - iii. Debt UBTI to an investor in the fund if the Private Fund incurs debt (but see ii. above).
 - iv. Trade or business UBTI to an investor in the fund if the Private Fund invests in an operating property such as a hotel or a long-term care facility. However, such a Private Fund may be able to avoid such trade or business in this situation if the Private Fund leases the operating property to a third party and receives only rent.
 - e. Direct Investments by the fund in REITS
 - f. Generally no UBTI.

Some of the above-described categories of Private Funds do not promise or seek to avoid UBTI, and the fund makes no commitment to invest in Private Funds that will not incur UBTI or to use a structure, if available, that will avoid generating UBTI.

REGULAR US INCOME TAX TREATMENT OF NON-US PRIVATE FUNDS

A Private Fund that constitutes an "off-shore" (i.e. a foreign organized partnership, limited liability company or corporation) that makes investments in the US could be subject to regular US federal income taxes (and applicable state and local income taxes) to the extent that the Private Fund is treated as engaged in a US trade or business and income or gain from such trade or business is "effectively connected" with the conduct of such trade or business. In addition, all or a portion of such income or gain could be subject to an additional 30% US branch profits tax, thereby resulting in a combined federal income tax rate of up to 54.3% under current law.

However, in general, a Private Fund that could be subject to such US taxation generally conducts such fund's securities and commodities trading in the US so as to qualify for a "safe harbor" under the Code in order to avoid being subject to the foregoing US taxes. However, certain types of securities and real estate investments (including, but not limited to, insurance contracts) may not qualify for the safe harbor. Also, income or gain from an investment by such a Private Fund directly in a US trade or business in a "pass-through" entity that conducts such a trade or business in the US could be subject to such taxation.

Separately, such a Private Fund would generally be subject to US withholding taxes on certain categories of US source income, primarily dividends and interest (although most interest from US sources is exempt from US withholding taxes as "portfolio interest").

The foregoing discussion is, by necessity, general; the specific tax consequences to an off-shore Private Fund will vary depending on the particular fund's activity, structure and investments. Any such taxes incurred by such a Private Fund reduces the fund's and their investors' after-tax return.

Foreign Taxation

Certain of the Private Funds (and their direct and indirect investors) in which the fund invests may be subject to withholding and other foreign taxes and reporting requirements imposed by non-US countries where the Private Funds invest or conduct their activities. Thus, taxation and reporting requirements could also extend to the fund and its investors. Although tax conventions exist between certain countries and the United States that would otherwise reduce or eliminate such taxes, it is highly doubtful that either the fund or its investors will be able to take advantage of such conventions. Furthermore, although the fund and/or investors in the fund subject to foreign taxes may be able to claim US foreign tax credits or deductions, subject to complex limitations and conditions, in general, except for UBTI imposed on an investor in the fund, investors in the fund should not expect to be able to claim such tax credits or deductions assuming such investors are otherwise exempt from US federal income taxes. Also, a Private Fund may not provide sufficient information to enable a direct or indirect investor in the Private Fund to claim such tax credits or deductions.

US, State and Local Taxation

Apart from the above issues, it is possible that some of the Private Funds in which the fund invests, the fund or its investors will be subject to various state or local taxes (including, but not limited to, taxes on UBTI) and reporting requirements as a result of the Private Fund's investments and activities. Certain state and local jurisdictions impose withholding requirements on out-of-state investors or require that the investors file tax returns in the particular jurisdiction even if an investor is federally tax-exempt. State and local taxation of income, gains and losses from a Private Fund's investments and activities may differ from the treatment of such income, gains and losses for US federal income tax purposes.

Possible Tax Law Changes

The foregoing discussion is only a summary and is based on existing US federal income tax law. Prospective investors should recognize that US federal income tax treatment of Private Funds, the fund and investors in the fund may be modified at any time by legislative, judicial or administrative action. Any such changes may have retroactive effect with respect to existing transactions and investments and may modify the statements made above.

Reporting Requirements

The fund and possibly its investors may be required to file reports with the Service regarding cash transfers to Private Funds organized outside the US and possibly required to make annual filings regarding the maintenance by the fund or a Private Fund of a foreign financial account or financial interest (which may be interpreted to include an investment in a Private Fund itself). Substantial penalties may apply for failure to timely file such reports or make such filings.

Prospective investors are urged to consult their tax advisors with respect to the US federal, state and local and other tax consequences of acquiring, holding and disposing of an investment in the fund and such tax consequences to the fund from acquiring, holding and disposing of investments in Private Funds.



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