

Hatteras Core Alternatives Institutional Fund, L.P.
Hatteras Core Alternatives TEI Institutional Fund, L.P.
Prospectus, Limited Partnership Agreement, Privacy Policy

January 1, 2012

Defining Alternatives



HATTERAS
FUNDS

HATTERAS CORE ALTERNATIVES INSTITUTIONAL FUND, L.P. HATTERAS CORE ALTERNATIVES TEI INSTITUTIONAL FUND, L.P.

PROSPECTUS

October 27, 2011

As amended January 1, 2012

LIMITED PARTNERSHIP UNITS

Hatteras Core Alternatives Institutional Fund, L.P. (formerly, the “Hatteras Multi-Strategy Institutional Fund, L.P.”) and the Hatteras Core Alternatives TEI Institutional Fund, L.P. (formerly, the “Hatteras Multi-Strategy TEI Institutional Fund, L.P.”) are Delaware limited partnerships that are each registered under the Investment Company Act of 1940, as amended (the “1940 Act”), as non-diversified, closed-end management investment companies. The Hatteras Core Alternatives TEI Institutional Fund, L.P. (the “TEI Institutional Fund”) is designed for investment primarily by tax-exempt and tax-deferred investors. Hatteras Investment Partners, LLC (“HIP”), an investment adviser registered with the Securities and Exchange Commission (the “SEC”) under the Investment Advisers Act of 1940, as amended (the “Advisers Act”), serves as the investment manager to the Master Fund (as defined below) (in such capacity, the “Investment Manager”).

The investment objective of each of the Hatteras Core Alternatives Institutional Fund, L.P. (the “Core Alternatives Institutional Fund”) and the TEI Institutional Fund (each a “Fund” and together, the “Funds”) is to provide capital appreciation consistent with the return characteristic of the alternative investment portfolios of larger endowments. To achieve its objective, the Core Alternatives Institutional Fund provides its limited partners (each, a “Partner” and together, the “Partners”) with access to a broad range of investment strategies, asset categories and independent trading advisers (“Advisers”) and by providing overall asset allocation services typically available on a collective basis to larger institutions through an investment of substantially all of its assets in the Hatteras Master Fund, L.P., a Delaware limited partnership (the “Master Fund”), which is also registered under the 1940 Act and has the same investment objective as the Core Alternatives Institutional Fund.

The TEI Institutional Fund provides its Partners with access to a broad range of investment strategies and asset categories, Advisers and overall asset allocation services typically available on a collective basis to larger institutions through an investment of substantially all of the assets of the TEI Institutional Fund in the Hatteras Core Alternatives Offshore Institutional Fund, LDC (the “Offshore Fund”), a Cayman Islands limited duration company with the same investment objective as the TEI Institutional Fund. The Offshore Fund in turn invests substantially all of its assets in the Master Fund, which has the same investment objective as the TEI Institutional Fund and the Offshore Fund. The Offshore Fund serves solely as an intermediate entity through which the TEI Institutional Fund invests in the Master Fund. The Offshore Fund makes no independent investment decisions and has no investment or other discretion over the TEI Institutional Fund’s investable assets.

The Offshore Fund is interposed between the TEI Institutional Fund and the Master Fund and serves as an intermediate entity so that any income generated by the Master Fund is not ultimately recognized by Partners in the TEI Institutional Fund as unrelated business taxable income (“UBTI”). The Offshore Fund is treated as a corporation under the taxation laws of the United States. Any income received by the Offshore Fund is distributed to the TEI Institutional Fund as dividend income. UBTI should therefore not flow through the Offshore Fund to the Partners of the TEI Institutional Fund. As a result, income earned by a Partner from its investment in the TEI Institutional Fund should not constitute UBTI provided that the Partner does not itself incur indebtedness to finance its investment in the TEI Institutional Fund. See “TAXES”.

Although it is not required to do so, the Master Fund will seek to allocate its assets among at least 50 Advisers, generally through investments in a wide range of investment vehicles (“Adviser Funds,” which includes exchange-traded funds (“ETFs”), hedge funds, private investment funds and other investment funds) managed by the Advisers or by placing assets in an account directly managed by the Adviser (each, an “Adviser Account”). A Fund cannot guarantee that its investment objective will be achieved or that the Master Fund’s strategy of investing in the Adviser Funds will be successful. Investing in the Funds involves a heightened risk of significant loss. **SEE “RISK FACTORS,” “GENERAL RISKS” AND “SPECIAL RISKS OF FUND OF FUNDS STRUCTURE” BEGINNING ON PAGE 28.**

This prospectus (the “Prospectus”) applies to the offering of units of limited partnership interest (“Units”) of each Fund. Each Fund commenced the public offering of the Units in 2008 and has publicly offered Units since that time. The Units will generally be offered as of the first business day of each calendar month or at such other times as may be determined by Hatteras Investment Management, LLC, the general partner of the Funds and the Master Fund (the “General Partner”), in each case subject to any applicable sales charge and other fees, as described herein. The Units are issued at net asset value (“NAV”) per Unit. The Core Alternatives Institutional Fund has registered \$500,000,000 and the TEI Institutional Fund has registered \$1,000,000,000 for sale under the registration statement to which this Prospectus relates. No person who is admitted as a Partner will have the right to require a Fund to redeem its Units.

If you purchase Units in either Fund, you will become bound by the terms and conditions of that Fund's Amended and Restated Limited Partnership Agreement (each, a "Partnership Agreement").

Investments in either of the Funds may be made only by "Eligible Investors" as defined herein. See "INVESTOR QUALIFICATIONS."

For convenience, reference to the Funds may include the Offshore Fund and the Master Fund as the context requires. Also, the Master Fund's investments may be referred to as investments with Advisers or Adviser Funds.

Units are an Illiquid Investment. The Units will not be listed on any securities exchange and the Funds will not knowingly permit a secondary market to develop. The Units are subject to substantial restrictions on transferability and resale and may not be transferred or resold except as permitted under the Partnership Agreements. Although each Fund may offer to repurchase Units from time to time, Units will not be redeemable at a Partner's option nor will they be exchangeable for Units or shares of any other fund. As a result, an investor may not be able to sell or otherwise liquidate his or her Units. Units are appropriate only for those investors who can tolerate a high degree of risk and do not require a liquid investment and for whom an investment in a Fund does not constitute a complete investment program.

This Prospectus concisely provides information that you should know about the Funds before investing. You are advised to read this Prospectus carefully and to retain it for future reference. Additional information about the Funds, including the Funds' statement of additional information ("SAI"), dated October 27, 2011, as amended January 1, 2012, has been filed with the Securities and Exchange Commission (the "SEC"). You can request a copy of the SAI without charge by writing to the Funds, UMB Fund Services, Inc., P.O. Box 2175, Milwaukee, Wisconsin 53201-2175, or by calling the Funds at 888-363-2324. You can also obtain a copy of the SAI and annual and semi-annual reports of the Funds at the following website: www.hatterasfunds.com. The SAI is incorporated by reference into this Prospectus in its entirety. The table of contents of the SAI appears on page 53 of this Prospectus. You can obtain the SAI, and other information about the Funds, on the SEC's website (<http://www.sec.gov>). The address of the SEC's internet site is provided solely for the information of prospective investors and is not intended to be an active link.

Hatteras Core Alternatives Institutional Fund, L.P.

Total Offering Amount (1)	\$500,000,000
Proceeds to the Fund (maximum)(2)	\$500,000,000
Proceeds to the Fund (minimum)(2)	\$500,000,000

Hatteras Core Alternatives TEI Institutional Fund, L.P.

Total Offering Amount (1)	\$1,000,000,000
Proceeds to the Fund (maximum)(2)	\$1,000,000,000
Proceeds to the Fund (minimum)(2)	\$1,000,000,000

(1) Hatteras Capital Distributors, LLC (the "Distributor") acts as the principal underwriter of the Funds' Units on a best-efforts basis, subject to various conditions. The Units are being offered through the Distributor and may also be offered through other brokers or dealers that have entered into selling agreements with the Distributor. The Investment Manager, the Distributor and/or their affiliates may make payments to selected affiliated or unaffiliated third parties (including the parties who have entered into selling agreements with the Distributor) from time to time in connection with the distribution of Units and/or the servicing of Partners and/or the Fund. These payments will be made out of the Investment Manager's, Distributor's and/or affiliates' own assets and will not represent an additional charge to the Fund. The amount of such payments may be significant in amount and the prospect of receiving any such payments may provide such third parties or their employees with an incentive to favor sales of Units of the Fund over other investment options. See "DISTRIBUTION ARRANGEMENTS." The Funds will sell Units only to investors who certify that they are "Eligible Investors." See "INVESTOR QUALIFICATIONS." The minimum initial investment in each Fund by any investor is \$50,000. However, the General Partner of each Fund, in its sole discretion, may accept investments below this minimum. Pending the closing of any offering, funds received from prospective investors will be placed in an interest-bearing escrow account with UMB Bank, N.A., the Funds' escrow agent. On the date of any closing, the balance in the escrow account with respect to each investor whose investment is accepted will be invested in the Fund on behalf of such investor. Any interest earned on escrowed amounts will be credited to the Fund. See "The Offering."

(2) A Fund's offering expenses are described under "FUND FEES AND EXPENSES" below. The Core Alternatives Institutional Fund and the TEI Institutional Fund paid offering expenses estimated at \$143,898.90 and \$218,750.06, respectively, from the proceeds of the offering.

Neither the SEC nor any state securities commission has determined whether this Prospectus is truthful or complete, nor have they made, nor will they make, any determination as to whether anyone should buy these securities. Any representation to the contrary is a criminal offense.

You should not construe the contents of this Prospectus as legal, tax or financial advice. You should consult with your own professional advisors as to legal, tax, financial, or other matters relevant to the suitability of an investment in a Fund.

You should rely only on the information contained in this Prospectus and the SAI. The Funds have not authorized anyone to provide you with different information.

THE FUNDS' PRINCIPAL UNDERWRITER IS HATTERAS CAPITAL DISTRIBUTORS, LLC.

The date of this Prospectus is October 27, 2011, as amended January 1, 2012.

TABLE OF CONTENTS

Fund Fees and Expenses	5
Financial Highlights	10
Funds Summary	14
Use of Proceeds	18
Distribution Arrangements	18
Management of the Funds	18
Investment Objective and Strategies	20
Overview of Investment Process	26
Due Diligence and Selection of Advisers	27
Risk Factors	28
Investor Qualifications	39
Tender Offers/Offer to Repurchase	39
Tender/Repurchase Procedures	40
Transfers of Units	41
Capital Accounts and Allocations	41
Calculation of Net Asset Value	42
Taxes	45
Table of Contents of the Statement of Additional Information	53

FUND FEES AND EXPENSES

The following tables describe the aggregate fees and expenses that each Fund expects to incur and that the Partners can expect to bear, either directly or indirectly, through the Core Alternatives Institutional Fund's investment in the Master Fund, and the TEI Institutional Fund's investment in the Offshore Fund and the Master Fund.

Core Alternatives Institutional Fund

PARTNER TRANSACTION EXPENSES:

Maximum Early Repurchase Fee (1) 5.00%

ANNUAL EXPENSES (AS A PERCENTAGE OF NET ASSETS OF THE FUND) (2)

Management Fee (3) 1.00%

Interest Expenses 0.10%

Other Expenses (4) 0.43%

Acquired Fund Fees and Expenses (5) 4.20%

Total Annual Expenses 5.73%

The following hypothetical example is intended to help you compare the cost of investing in the Core Alternatives Institutional Fund with the cost of investing in other funds. The example assumes that all distributions are reinvested at NAV and that the percentage amounts listed under annual expenses remain the same in the years shown. The table and the assumption in the hypothetical example of a 5% annual return are required by regulation of the SEC applicable to all investment companies; the assumed 5% annual return is not a prediction of, and does not represent, the projected or actual performance of the Units. The example reflects allocation by the Core Alternatives Institutional Fund to the Investment Manager of the Performance Allocation (as defined below), which is calculated based on the assumed 5% annual return and the yield-to-maturity of the 90 day U.S. Treasury Bill of 0.12% as reported by the Wall Street Journal on December 31, 2010.

The example is based on the expenses set forth in the table above, including Acquired Fund Fees and Expenses, and should not be considered a representation of the Core Alternatives Institutional Fund's future expenses. Actual expenses of the Core Alternatives Institutional Fund may be higher or lower than those shown. Moreover, the annual return may be greater or less than the hypothetical 5% return in the table above; if the annual return were greater, the amount of fees and expenses would increase.

EXAMPLE

You Would Pay the Following Expenses Based on a \$1,000 Investment in the Fund, Assuming a 5% Annual Return:

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
Core Alternatives Institutional Fund	\$62	\$191	\$328	\$711

Core Alternatives Institutional Fund Footnotes

- (1) A Partner participating in a repurchase offer may be subject to a repurchase fee payable to the Fund equal to 5% of the amount repurchased if such Partner has been a Partner for less than 12 months prior to the valuation date.
- (2) This table summarizes the aggregate expenses of the Fund and the Master Fund and is designed to help investors understand the costs and expenses they will bear, directly or indirectly, by investing in the Fund.
- (3) The Fund does not pay the Investment Manager a Management Fee directly, but the Partners bear an indirect share of this fee through the Fund's investment in the Master Fund. For its provision of services to the Master Fund, the Investment Manager receives a monthly Management Fee equal to 1/12th of 1.00% (1.00% on an annualized basis) of the aggregate value of the Master Fund's net assets as of each month-end. The Management Fee will be paid to the Investment Manager before giving effect to any repurchase of interests in the Master Fund effective as of that date, and will decrease the net profits or increase the net losses of the Master Fund that are credited to its interest holders, including the Fund. In addition, the General Partner of the Master Fund will be allocated a Performance Allocation (as defined below) that is equal to 10% of the excess of the new net profits of the limited partner interests of the Master Fund (calculated and accrued monthly and payable annually and calculated separately for the Core Alternatives Institutional Fund, the TEI Institutional Fund and each other fund that serves as a feeder fund to the Master Fund) over the yield-to-maturity of the 90 day U.S. Treasury Bill as reported by the Wall Street Journal for the last business day of the preceding calendar year of the Master Fund.
- (4) "Other Expenses" includes direct expenses of the Fund as well as indirect expenses of the Master Fund. Directors' fees, insurance costs and other costs have been allocated pro rata among the Master Fund and all of its feeder funds (including the

Fund). Partners also indirectly bear a portion of the asset-based fees, performance and incentive fees or allocations and other expenses incurred by the Master Fund as an investor in Adviser Funds or Adviser Accounts. “Other Expenses” are based on estimated amounts for the current fiscal year and also includes the Fund Servicing Fee. The Fund Servicing Fee payable to the Investment Manager will be borne pro rata by all Partners of the Fund. See “*FUND SERVICING FEE*” for additional information.

- (5) In addition to the Fund’s direct expenses, the Fund indirectly bears a pro-rata share of the expenses of the Adviser Funds. The Adviser Funds generally charge, in addition to management fees calculated as a percentage of the average NAV of the Fund’s investment, performance-based fees generally from 10% to 35% of the net capital appreciation in the Fund’s investment for the year or other measurement period. The fees and expenses indicated are calculated based on estimated amounts for the current fiscal year. In the future, these fees and expenses may be substantially higher or lower than reflected, because certain fees are based on the performance of the Advisers, which fluctuate over time. In addition, the Master Fund’s portfolio changes from time to time, which will result in different Acquired Fund Fees and Expenses.

TEI Institutional Fund

PARTNER TRANSACTION EXPENSES:

Maximum Interest Repurchase Fee (1) 5.00%

ANNUAL EXPENSES (AS A PERCENTAGE OF NET ASSETS OF THE FUND) (2)

Management Fee (3) 1.00%

Interest Expenses 0.10%

Other Expenses (4) 0.59%

Acquired Fund Fees and Expenses (5) 4.20%

Total Annual Expenses 5.89%

The following hypothetical example is intended to help you compare the cost of investing in the TEI Institutional Fund with the cost of investing in other funds. The example assumes that all distributions are reinvested at NAV and that the percentage amounts listed under annual expenses remain the same in the years shown. The table and the assumption in the hypothetical example of a 5% annual return are required by regulation of the SEC applicable to all investment companies; the assumed 5% annual return is not a prediction of, and does not represent, the projected or actual performance of the Units. The example reflects allocation by the TEI Institutional Fund to the Investment Manager of the Performance Allocation, which is calculated based on the assumed 5% annual return and the yield-to-maturity of the 90 day U.S. Treasury Bill of 0.12% as reported by the Wall Street Journal on December 31, 2010.

The example is based on the expenses set forth in the table above, including Acquired Fund Fees and Expenses, and should not be considered a representation of the TEI Institutional Fund’s future expenses. Actual expenses of the TEI Institutional Fund may be higher or lower than those shown. Moreover, the annual return may be greater or less than the hypothetical 5% return in the table above; if the annual return were greater, the amount of fees and expenses would increase.

EXAMPLE

You Would Pay the Following Expenses Based on a \$1,000 Investment in the Fund, Assuming a 5% Annual Return:

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
TEI Institutional Fund	\$62	\$192	\$329	\$713

TEI Institutional Fund Footnotes

- (1) A Partner participating in a repurchase offer may be subject to a repurchase fee payable to the Fund equal to 5% of the amount repurchased if such Partner has been a Partner for less than 12 months prior to the valuation date.
- (2) This table summarizes the aggregate expenses of the Fund, the Offshore Fund and the Master Fund and is designed to help investors understand the costs and expenses they will bear, directly or indirectly, by investing in the Fund.
- (3) The Fund and the Offshore Fund do not pay the Investment Manager a Management Fee directly, but the Partners bear an indirect share of this fee through the Fund’s investment in the Master Fund through the Offshore Fund. For its provision of services to the Master Fund, the Investment Manager receives a monthly Management Fee equal to 1/12th of 1.00% (1.00% on an annualized basis) of the aggregate value of the Master Fund’s net assets as of each month-end. The Management Fee will be paid to the Investment Manager before giving effect to any repurchase of interests in the Master Fund effective as of that date, and

will decrease the net profits or increase the net losses of the Master Fund that are credited to its interest holders, including the Fund. In addition, the General Partner of the Master Fund will be allocated a Performance Allocation (as defined below) that is equal to 10% of the excess of the new net profits of the limited partner interests of the Master Fund (calculated and accrued monthly and payable annually and calculated separately for the TEI Institutional Fund, the Core Alternatives Institutional Fund and each other fund that serves as a feeder fund to the Master Fund) over the yield-to-maturity of the 90 day U.S. Treasury Bill as reported by the Wall Street Journal for the last business day of the preceding calendar year of the Master Fund.

- (4) “Other Expenses” includes direct expenses of the Fund as well as indirect expenses of the Master Fund. Directors’ fees, insurance costs and other costs have been allocated pro-rata among the Master Fund and all of its feeder funds (including the Fund). Partners also indirectly bear a portion of the asset-based fees, performance and incentive fees or allocations and other expenses incurred by the Master Fund as an investor in Adviser Funds or Adviser Accounts. “Other Expenses” are based on estimated amounts for the current fiscal year and also includes the Fund Servicing Fee. The Fund Servicing Fee payable to the Investment Manager will be borne pro rata by all Partners of the Fund. See “*FUND SERVICING FEE*” for additional information.
- (5) In addition to the Fund’s direct expenses, the Fund indirectly bears a pro-rata share of the expenses of the Adviser Funds. The Adviser Funds generally charge, in addition to management fees calculated as a percentage of the average NAV of the Fund’s investment, performance-based fees generally from 10% to 35% of the net capital appreciation in the Fund’s investment for the year or other measurement period. The fees and expenses indicated are calculated based on estimated amounts for the current fiscal year. In the future, these fees and expenses may be substantially higher or lower than reflected, because certain fees are based on the performance of the Advisers, which fluctuate over time. In addition, the Master Fund’s portfolio changes from time to time, which will result in different Acquired Fund Fees and Expenses.

PERFORMANCE INFORMATION. Past performance does not guarantee future investment results. Performance of the Funds will vary based on many factors, including market conditions, the composition of the Funds’ portfolios and the Funds’ expenses. For past performance information, please refer to the section entitled “FINANCIAL HIGHLIGHTS.” Each Fund may from time to time advertise its performance relative to certain averages, performance rankings, indices (including, but not limited to, the Standard & Poor’s 500 Stock Index, the Barclays Capital Aggregate Bond Index and the HFRX Global Hedge Fund Index), other information prepared by recognized investment company statistical services and investments for which reliable performance information is available. The Standard & Poor’s 500 Stock Index with dividends reinvested is a market capitalization weighted index made up of the 500 U.S. companies with the largest market capitalizations. The Barclays Capital Aggregate Bond Index is a benchmark index made up of the Barclays Capital Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, which, in the aggregate, represent fixed income securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least \$100 million. The HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of certain hedge fund strategies, including, but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry. Indices are unmanaged and their returns do not include sales charges or fees. It is not possible to invest directly in the above referenced indices.

MANAGEMENT FEE. In consideration for the advisory and other services provided by the Investment Manager to the Master Fund pursuant to the Investment Management Agreement, the Master Fund will pay the Investment Manager a monthly management fee (the “Management Fee”) equal to 1/12th of 1.00% (1.00% on an annualized basis) of the aggregate value of the Master Fund’s net assets as of each month-end. Net assets means the total value of all assets of the Master Fund, less an amount equal to all accrued debts, liabilities and obligations of the Master Fund. In the case of a partial month, the Management Fee will be based on the number of days during the month in which the Investment Manager invested Master Fund assets. The Management Fee will be paid to the Investment Manager out of the capital account of each limited partner of the Master Fund pro rata after adjustment for any subscriptions effective on that date and before giving effect to any repurchase of interests in the Master Fund or portions of interests in the Master Fund effective as of that date, and will decrease the net profits or increase the net losses of the Master Fund that are credited to or debited against the capital accounts of its limited partners.

The Funds will not directly pay a management fee to the Investment Manager; however, the Core Alternatives Institutional Fund bears an indirect share of the Management Fee as a result of the Core Alternatives Institutional Fund’s investment in the Master Fund, and the TEI Institutional Fund and Offshore Fund bear an indirect share of the Management Fee as a result of the TEI Institutional Fund’s investment in the Master Fund through the Offshore Fund. A discussion regarding the basis for the approval of the Board of Directors of each Fund (each, a “Board”) of the Investment Management Agreement for the Master Fund is available in the Master Fund’s annual report dated March 31, 2011.

The Investment Manager has contractually agreed to waive its Fund Servicing Fee and/or reimburse Other Expenses until July 31, 2012, so that the Total Annual Expenses (excluding taxes, interest, brokerage commissions, other transaction-related expenses, any extraordinary expenses of the Funds, any Acquired Fund Fees and Expenses, as well as any performance allocation payable by the Funds or the Master Fund) for this period will not exceed 1.75% for the Funds (the “Expense Limitation”). The Funds will carry forward, for a period not to exceed (3) three years from the date on which a waiver or reimbursement is made by the Investment Manager, any expenses in excess of the Expense Limitation and repay the Investment Manager such amounts, provided the Funds are able to effect such reimbursement and remain in compliance with the Expense Limitation disclosed in the then effective Prospectus. The Funds’ Expense Limitation Agreements are calculated based on end of month net asset values. However, in the financial statements for the Funds, the expense ratios presented in the financial highlights are calculated based on average monthly net assets.

PERFORMANCE ALLOCATION. The General Partner of the Master Fund will be allocated a Performance Allocation that is equal to 10% of the excess of the new net profits of the partner interests in the Master Fund (calculated and accrued monthly and payable annually and calculated separately for the Core Alternatives Institutional Fund, the TEI Institutional Fund and each other fund that serves as a feeder fund to the Master Fund) over the yield-to-maturity of the 90 day U.S. Treasury Bill as reported by the Wall Street Journal for the last business day of the preceding calendar year of each Fund.

FUND SERVICING FEE. Each Fund intends to pay compensation to HIP for fund services in accordance with a fund servicing agreement between each Fund and HIP (in such capacity, the “Servicing Agent”). The Servicing Agent receives a monthly fund servicing fee (“Fund Servicing Fee”) equal to 1/12th of 0.10% (0.10% on an annualized basis) of the aggregate value of each Fund’s net assets as of the end of each month. The Fund Servicing Fee payable to the Servicing Agent will be borne pro rata by all Partners of each corresponding Fund before giving effect to any repurchase of Units in a Fund effective as of that date and will decrease the net profits or increase the net profits or increase the net losses of the Fund that are credited to its Partners. The Servicing Agent may waive (to all investors on a pro rata basis) or pay to third parties all or a portion of any such fees in its sole discretion. The Servicing Agent may delegate some or all of its servicing responsibilities to one or more service providers. The Servicing Agent may delegate and any such service provider will provide customary services, including some or all of the following: (1) assisting in the maintenance of a Fund’s records containing information relating to Partners; (2) providing the Funds with personnel to perform such executive, administrative and clerical services as are reasonably necessary to provide effective administration of a Fund and Partner services; (3) as agreed from time to time with the Board in accordance with Rule 38a-1 under the 1940 Act, making available the services of appropriate compliance personnel and resources relating to compliance policies and procedures of the Funds; (4) assisting in the administration of meetings of the Board and its committees and the Partners; (5) assisting in administering subscriptions and tender offers, including assistance in the preparation of regulatory filings and the transmission of cash between Partners and a Fund, and the Funds and the Master Fund (or any successor thereto designated by a Fund); (6) assisting in arranging for, at the Funds’ expense, the preparation of all required tax returns; (7) assisting in the periodic updating of the Funds’ prospectus(es) and statement(s) of additional information, the preparation of proxy statements to Partners, and the preparation of reports filed with regulatory authorities; (8) providing information and assistance as requested in connection with the registration of the Funds’ Units in accordance with state securities requirements; (9) providing assistance in connection with the preparation of the Funds’ periodic financial statements and annual audit as reasonably requested by the Board or officers of the Funds or the Funds’ independent accountants; and (10) supervising other aspects of the Funds’ operations and providing other administrative services to the Funds.

ADMINISTRATION SERVICES. Each Fund will pay UMB Fund Services, Inc. (the “Administrator”) a fixed monthly administration fee of \$2,000 (\$24,000 on an annualized basis) in addition to a regulatory administration fee, transfer agency fees and certain out of pocket expenses (collectively, the “Fund Administration Fee”). In addition, the Master Fund will pay the Administrator an administration fee of up to 0.075% on an annualized basis of the net assets of the Master Fund (prior to reduction for any Management Fee) (the “Master Fund Administration Fee”, and together with the Fund Administration Fee, the “Administration Fees”) calculated as of month-end. The Master Fund Administration Fee will be paid to the Administrator pro rata before giving effect to any repurchase of interests in the Master Fund effective as of that date, and will decrease the net profits or increase the net losses of the Master Fund that are credited to its partners. The Funds and the Master Fund will also reimburse the Administrator for certain out-of-pocket expenses and pay the Administrator a fee for transfer agency services.

CUSTODIAL SERVICES. UMB Bank, N.A. (the “Custodian”) serves as the custodian of the Funds’ and the Offshore Fund’s assets. The Custodian also serves as the custodian of the Master Fund’s assets not held by U.S. Bank National Association (“U.S. Bank” and together with the Custodian, the “Custodians”). U.S. Bank serves as the custodian of the Master Fund’s assets that are used to collateralize any borrowings pursuant to the Master Fund’s credit facility with Credit Suisse International (“Credit Suisse”). The Custodians may maintain custody of assets with domestic and non-U.S. subcustodians (which may be banks, trust companies, securities depositories and clearing agencies) approved by the Board. Assets are not held by the Investment Manager or commingled with the assets of other accounts except to the extent that securities are held in the name of a custodian in a securities depository, clearing agency or omnibus customer account of such custodian. The Custodian’s principal business address is 1010 Grand Boulevard, Kansas City, Missouri 64106. The Custodian is an affiliate of the Administrator. U.S. Bank’s principal business address is 800 Nicollet Mall, Minneapolis, Minnesota 55402.

FUND EXPENSES. Each Fund will pay all of its own expenses other than those that the Investment Manager or an affiliate of the Investment Manager assumes. The expenses of each Fund will include, but will not be limited to, any fees and expenses in connection with the organization of each Fund, including any offering expenses; brokerage commissions; interest and fees on any borrowings by a Fund; expenses incurred with respect to due diligence (including, without limitation, the fees and expenses of outside operational due diligence professionals); fees and expenses of outside legal counsel (including fees and expenses associated with review of documentation for prospective investments by each Fund), including foreign legal counsel; independent registered public accounting firm fees; fees and expenses in connection with repurchase offers and any repurchases of Units; taxes and governmental fees (including tax preparation fees); custody fees; expenses of preparing, printing, and distributing the Prospectus, the SAI (and any supplements or amendments thereto), reports, notices, other communications to Partners, and proxy materials; expenses of preparing, printing, and filing reports and other documents with government agencies; expenses of Partners' meetings; expenses of corporate data processing and related services (including software expenses); Partner recordkeeping and Partner account services, fees, and disbursements; fees and expenses of the Directors that the Investment Manager does not employ; insurance premiums; and extraordinary expenses such as litigation expenses. Each Fund will also bear, as a direct or indirect investor in the Master Fund, its allocable portion of the fees and expenses of the Master Fund, and in the case of the TEI Institutional Fund, the expenses of the Offshore Fund. Each Fund may need to sell portfolio securities to pay fees and expenses, which could cause the affected Fund to realize taxable gains.

Ongoing offering costs required by applicable accounting principles to be charged to capital that are incurred during a fiscal period will be charged to capital for the period.

FINANCIAL HIGHLIGHTS

The information contained in the table below for the year or period ended March 31, 2011, March 31, 2010, March 31, 2009, March 31, 2008 and March 31, 2007, sets forth selected information derived from each Fund's financial statements for the fiscal years ended March 31 and have been audited by Deloitte & Touche LLP ("Deloitte"), an independent registered public accounting firm. Deloitte's report, along with each Fund's financial statements and notes thereto, are incorporated by reference to each Fund's annual report for the fiscal year ended March 31, 2011 previously filed on Form N-CSR on June 6, 2011 and are available upon request from each Fund. The information in the table below should be read in conjunction with those financial statements and the notes thereto. Please note that the Financial Highlights below refer to the Funds' former names, which were changed on January 1, 2012.

	<u>Hatteras Multi-Strategy Institutional Fund, L.P.</u>	<u>Hatteras Multi-Strategy TEI Institutional Fund, L.P.</u>
Net Asset Value, July 1, 2008*	\$100.00	\$100.00
Income from investment operations:		
Net investment loss	(0.79)	(0.75)
Net realized and unrealized loss on investment transactions	<u>(22.50)</u>	<u>(22.59)</u>
Total from investment operations	<u>(23.29)</u>	<u>(23.34)</u>
Net Asset Value, April 1, 2009	76.71	76.66
Income from investment operations:		
Net investment loss	(0.86)	(0.61)
Net realized and unrealized gain on investment transactions	<u>13.06</u>	<u>12.81</u>
Total from investment operations	<u>12.20</u>	<u>12.20</u>
Net Asset Value, April 1, 2010	88.91	88.86
Income from investment operations:		
Net investment income (loss)	(0.10)	0.30
Net realized and unrealized gain on investment transactions	<u>6.00</u>	<u>5.53</u>
Total from investment operations	<u>5.90</u>	<u>5.83</u>
Net Asset Value, March 31, 2011	<u>\$ 94.81</u>	<u>\$ 94.69</u>

* Net asset value per share information presented as of unitization on July 1, 2008.

Hatteras Multi-Strategy Institutional Fund, L.P.	For the Year Ended March 31,				For the period from January 1, 2007 (commencement of operations) to March 31, 2007 ⁵
	2011	2010	2009	2008 ²	
Total return before amortizing organizational expenses and before Performance Allocation	6.64% ¹	15.90% ¹	(20.69)% ¹	3.37% ¹	3.79%
Organization expense	—	—	—	—	(1.38)%
Total return after amortizing organizational expenses and before Performance Allocation ³	6.64%	15.90%	(20.69)%	3.37%	2.41%
Performance Allocation	0.00%	0.00%	(0.03)%	(0.15)%	(0.17)%
Total return after amortizing organizational expenses and Performance Allocation	6.64%	15.90%	(20.72)%	3.22%	2.24%
Net investment income (loss)	0.14%	(1.12)%	(1.23)%	(1.11)%	(5.37)%
Ratio of operating expenses to average net assets ⁴	1.43%	1.51%	1.56%	1.72%	7.60%
Ratio of allocated credit facility fees and interest expense to average net assets	0.10%	0.06%	0.03%	0.05%	0.01%
Operating expenses, excluding reimbursement from Investment Manager and Performance Allocation ⁴	1.53%	1.57%	1.59%	1.77%	7.61%
Performance Allocation	0.00%	0.00%	0.03%	0.18%	0.35%
Total expenses and Performance Allocation before reimbursement from Investment Manager	1.53%	1.57%	1.62%	1.95%	7.96%
Reimbursement from Investment Manager	0.00%	0.00%	0.00%	(0.02)%	(1.12)%
Net expenses	1.53%	1.57%	1.62%	1.93%	6.84%
Limited Partners' capital, end of period (000's)	\$238,675	\$249,153	\$202,898	\$149,882	\$9,418
Portfolio Turnover Rate (Master Fund)	25.12%	23.12%	22.57%	9.54%	14.03%

¹ Organizational costs were fully expensed as of March 31, 2007.

² 2008 Ratio includes repayment to Investment Manager for prior reimbursements in the amount of 0.09%.

³ Prior to 2009, total return amounts are calculated by geometrically linking returns based on the change in value during each monthly accounting period.

⁴ Ratios calculated based on total expenses and average net assets. If the expense ratio calculation had been performed monthly, as is done for expense cap calculations, the ratios would have been different.

⁵ Annualized for periods of less than one year.

Hatteras Multi-Strategy TEI Institutional Fund, L.P.	For the Year Ended March 31,				For the period from January 1, 2007 (commencement of operations) to March 31, 2007 ⁵
	2011	2010	2009	2008 ²	
Total return before amortizing organizational expenses and before Performance Allocation	6.61% ¹	15.91% ¹	(20.79)% ¹	3.09% ¹	2.51%
Organization expense	—	—	—	—	(2.07)%
Total return after amortizing organizational expenses and before Performance Allocation ³	6.61%	15.91%	(20.79)%	3.09%	0.44%
Performance Allocation	(0.05)%	0.00%	(0.05)%	(0.09)%	(0.15)%
Total return after amortizing organizational expenses and Performance Allocation	6.56%	15.91%	(20.84)%	3.00%	0.29%
Net investment income (loss)	0.10%	(1.11)%	(1.35)%	(1.44)%	(10.38)%
Ratio of operating expenses to average net assets ⁴	1.38%	1.44%	1.50%	1.67%	12.74%
Ratio of allocated credit facility fees and interest expense to average net assets	0.10%	0.06%	0.03%	0.05%	0.01%
Ratio of withholding tax to average net assets	0.08%	0.05%	0.19%	0.36%	0.25%
Operating expenses, excluding reimbursement from Investment Manager and Performance Allocation ⁴	1.56%	1.55%	1.72%	2.08%	13.00%
Performance Allocation	0.05%	0.00%	0.05%	0.14%	0.59%
Total expenses and Performance Allocation before reimbursement from Investment Manager	1.61%	1.55%	1.77%	2.22%	13.59%
Reimbursement from Investment Manager	0.00%	0.00%	0.00%	(0.03)%	(1.42)%
Net expenses	1.61%	1.55%	1.77%	2.19%	12.17%
Limited Partners' capital, end of period (000's)	\$659,549	\$561,581	\$384,901	\$209,737	\$ 4,047
Portfolio Turnover Rate (Master Fund)	25.12%	23.12%	22.57%	9.54%	14.03%

¹ Organizational costs were fully expensed as of March 31, 2007.

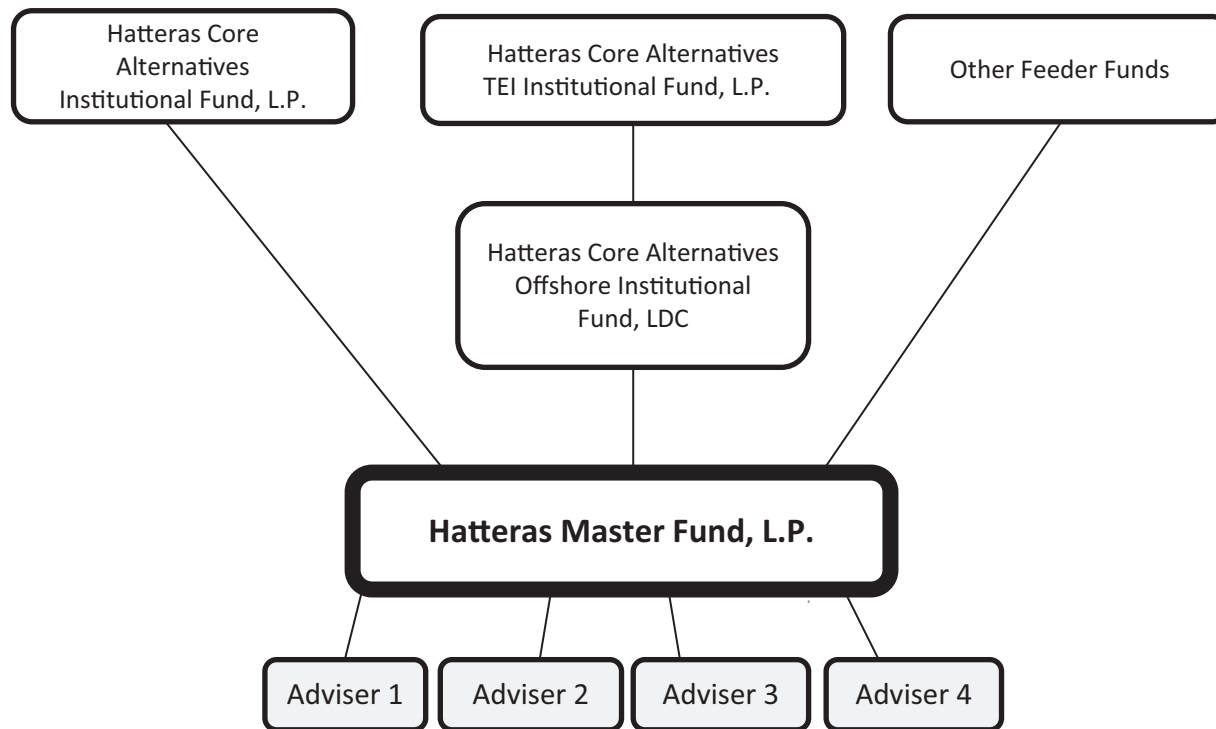
² 2008 Ratio includes repayment to Investment Manager for prior reimbursements in the amount of 0.07%.

³ Prior to 2009, total return amounts are calculated by geometrically linking returns based on the change in value during each monthly accounting period.

⁴ Ratios calculated based on total expenses and average net assets. If the expense ratio calculation had been performed monthly, as is done for expense cap calculations, the ratios would have been different.

⁵ Annualized for periods of less than one year.

Fund Structure



FUNDS SUMMARY

This is only a summary. This summary does not contain all of the information that Investors should consider before investing in the Funds. Investors should review the more detailed information appearing elsewhere in this Prospectus and SAI, especially the information set forth under the heading “RISK FACTORS.”

The Funds and the Units

Hatteras Core Alternatives Institutional Fund, L.P. (the “Core Alternatives Institutional Fund”) is a closed-end, management investment company, organized as a Delaware limited partnership on June 20, 2006. Hatteras Core Alternatives TEI Institutional Fund, L.P. (the “TEI Institutional Fund”) is a closed-end, management investment company, organized as a Delaware limited partnership on June 20, 2006. The Core Alternatives Institutional Fund and the TEI Institutional Fund (together, the “Funds”) are non-diversified, which means that under the 1940 Act, the Funds are not limited in the amount of assets that they may invest in any single issuer of securities. Limited partnership interests of the Funds were offered in private placement from January 1, 2007 until the Funds became publicly offered beginning on November 3, 2008. The Core Alternatives Institutional Fund invests substantially all of its assets in Hatteras Master Fund, L.P., a Delaware limited partnership (the “Master Fund”), which is also registered under the 1940 Act. The TEI Institutional Fund invests substantially all of its assets in the Hatteras Core Alternatives Offshore Institutional Fund, LDC (the “Offshore Fund”), a Cayman Islands limited duration company with the same investment objective as the TEI Institutional Fund. The Offshore Fund invests substantially all of its assets in the Master Fund. The Master Fund invests substantially all of its assets with a number of independent trading advisers (“Advisers”) selected by Hatteras Investment Partners, LLC (“HIP”), the investment manager of the Master Fund (in such capacity, the “Investment Manager”), that are typically available on a collective basis to larger institutions. The Investment Manager primarily pursues the Funds’ objective investing the Master Fund’s assets with each Adviser either by becoming a participant in an investment vehicle operated by the Adviser (each, an “Adviser Fund,” which includes exchange-traded funds (“ETFs”), hedge funds, private investment funds and other investment funds) or by placing assets in an account directly managed by the Adviser (each, an “Adviser Account”). See “Fund Structure” on prior page.

The General Partner

Hatteras Investment Management LLC, a Delaware limited liability company, serves as the general partner of the Funds and of the Master Fund (in each case, the “General Partner”). The General Partner has irrevocably delegated to the boards of directors of the Funds (the “Boards”) its rights and powers to monitor and oversee the business affairs of the Funds, including the complete and exclusive authority to oversee and establish policies regarding the management, conduct and operation of the Funds’ business.

Investment Objective and Strategies

The Master Fund has the same investment objective as the Funds and the Offshore Fund, which is to provide capital appreciation consistent with the return characteristic of the alternative investment portfolios of larger endowments. The Funds’ secondary objective is to provide capital appreciation with less volatility than that of the equity markets.

The Investment Manager

As Investment Manager, Hatteras Investment Partners, LLC provides day-to-day investment management services to the Master Fund. Its principal place of business is located at 8540 Colonnade Center Dr., Suite 401, Raleigh, NC 27615, Telephone (888) 363-2324, Facsimile (816) 860-3138. The Investment Manager is registered as an investment adviser with the SEC under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). As of March 31, 2011, approximately \$1.95 billion of assets were under the management of the Investment Manager and its affiliates. In order to comply with applicable Cayman Islands law, the Investment Manager holds a nominal, non-voting interest in the Offshore Fund. For further information, see Part 2 of Form ADV of the Investment Manager, which is available on the SEC’s website and upon request to the Investment Manager at (888) 363-2324.

Management Fee

The Master Fund will pay the Investment Manager a monthly management fee (“Management Fee”) equal to 1/12th of 1.00% (1.00% on an annualized basis) of the

aggregate value of the Master Fund's net assets as of the end of each month. The Management Fee will be paid to the Investment Manager before giving effect to any repurchase of interests in the Master Fund effective as of that date, and will decrease the net profits or increase the net losses of the Master Fund that are credited to its interest holders, including each Fund. Although neither the Funds nor the Offshore Fund will pay any direct investment management fee, the Funds and the Offshore Fund will bear, as a result of their investment in the Master Fund, their allocable portion of the management fee charged to the Master Fund.

Performance Allocation

The General Partner of the Master Fund is allocated a performance allocation (calculated and accrued monthly and payable annually and calculated separately for the Core Alternatives Institutional Fund, the TEI Institutional Fund and each other fund that serves as a feeder fund to the Master Fund) equal to 10% of the amount by which net new profits of the limited partner interests of the Master Fund exceed the non-cumulative "hurdle amount," which is calculated as of the last day of the preceding calendar year of the Master Fund at a rate equal to the yield-to-maturity of the 90 day U.S. Treasury Bill as reported by the Wall Street Journal for the last business day of the preceding calendar year (the "Performance Allocation"). The Performance Allocation is made on a "peak to peak," or "high watermark" basis, which means that the Performance Allocation is made only with respect to new net profits. If, with respect to a Fund, the Master Fund has a net loss in any period followed by a net profit, no Performance Allocation will be made with respect to such subsequent appreciation until such net loss has been recovered.

Fees of Advisers

Advisers will charge the Master Fund asset-based fees, and certain Advisers will also be entitled to receive performance-based fees or allocations. Such fees and performance-based compensation are in addition to both the fees that are charged by the Investment Manager to the Master Fund and allocated to the Funds, and the Performance Allocation charged by the General Partner. Moreover, an investor in the Core Alternatives Institutional Fund bears a proportionate share of the expenses of the Master Fund and the Core Alternatives Institutional Fund and, indirectly, similar expenses of the Adviser Funds. Likewise, an investor in the TEI Institutional Fund bears a proportionate share of the expenses of the Master Fund, the Offshore Fund and the TEI Institutional Fund, and indirectly, similar expenses of the Adviser Funds.

Investor Qualifications

Each prospective investor in a Fund will be required to certify that it is a "qualified client" within the meaning of Rule 205-3 under the Advisers Act. A "qualified client" means an individual or company (other than an investment company) that has a net worth (or in the case of individuals, a joint net worth with their spouse) of more than \$2,000,000, or that meets certain other qualification requirements. The SEC has issued notice that it intends to change the definition of "qualified client" by, among other things, excluding the value of an investor's primary residence from the net worth test under Rule 205-3. For more information see "*INVESTOR QUALIFICATIONS*." In addition, Units are generally being offered only to investors that are U.S. persons for U.S. federal income tax purposes. Investors who meet such qualifications are referred to in this Prospectus as "Eligible Investors."

The Offering

The minimum initial investment in a Fund by any investor is \$50,000, and the minimum additional investment in either Fund by a Partner is \$5,000. However, the General Partner of each Fund, in its sole discretion, may accept investments below these minimums.

Units will generally be offered for purchase as of the first day of each calendar month, except that Units may be offered more or less frequently as determined by the Board in its sole discretion. Potential investors should deposit monies in the capital account by wire transfer pursuant to instructions provided to them by the Funds.

Subscriptions are generally subject to the receipt of cleared funds on or prior to the acceptance date set by the Funds and notified to prospective investors. Pending the closing of any offering, funds received from prospective investors will be placed in an interest-bearing escrow account with UMB Bank, N.A., the Funds' escrow agent. On the date of

any closing, the balance in the escrow account with respect to each investor whose investment is accepted will be invested in the applicable Fund on behalf of such investor. Any interest earned on escrowed amounts will be credited to such Fund.

A prospective investor must submit a completed investor application on or prior to the acceptance date set by the Funds. Each Fund reserves the right to reject, in its sole discretion, any request to purchase Units in the Fund at any time. Each Fund also reserves the right to suspend or terminate offerings of Units at any time at the applicable Board's discretion. Additional information regarding the subscription process is set forth under "Investor Qualifications."

Fund Servicing Fee

Each Fund will pay Hatteras Investment Partners, LLC (in such capacity, the "Servicing Agent") for fund servicing in accordance with a fund servicing agreement. The Servicing Agent receives a monthly fund servicing fee ("Fund Servicing Fee") equal to 1/12th of 0.10% (0.10% on an annualized basis) of the aggregate value of each Fund's net assets as of the end of each month. The Fund Servicing Fee payable to the Servicing Agent will be borne pro rata by all Partners before giving effect to any repurchase of Units in a Fund effective as of that date, and will decrease the net profits or increase the net losses of the Fund that are credited to its Partners. The Servicing Agent may waive (to all investors on a pro rata basis) or pay to service providers all or a portion of any such fees in its sole discretion. For more information see "*FUND SERVICING FEE*" above.

Distribution Policy

It is expected that distributions will generally not be made to Partners. However, the Board has the right to cause distributions to be made in cash or in-kind to the Partners in its sole discretion. Whether or not distributions are made, each Partner will be required each year to pay applicable federal, state and local income taxes on its allocable share of the Funds' taxable income.

Closed-End Structure

Each Fund has been organized as a closed-end management investment company. Closed-end funds differ from open-end management investment companies (commonly known as mutual funds) in that beneficial owners of a closed-end fund do not have the right to redeem their Units on a daily basis.

Repurchase Offers

In order to provide a limited degree of liquidity to the Partners, each Fund intends to conduct repurchase offers generally quarterly with a Valuation Date (as defined below) on or about March 31, June 30, September 30 and December 31 of each year, provided that it is in the best interests of the Fund and the Partners to do so as determined by the Board. In each repurchase offer, each Fund intends to offer to repurchase a percentage of its Units at its NAV determined as of approximately March 31, June 30, September 30 and December 31, as applicable (each, a "Valuation Date"), but in no event will more than 20% of the Units of a Fund be repurchased per quarter. For purposes of clarification, it should be noted that there is no guarantee that a Fund will offer to repurchase 20% (or any other percentage) of the Units of a Fund in any given quarter. If the value of Units tendered for repurchase exceeds the value a Fund intended to repurchase, the Fund may determine to repurchase less than the full number of Units tendered. In such event, Partners will have their Units repurchased on a pro rata basis, and tendering Partners will not have all of their tendered Units repurchased by the Fund. Partners tendering Units for repurchase will be asked to give written notice of their intent to do so by the date specified in the notice describing the terms of the applicable repurchase offer, which date will be approximately 65 days prior to the date of repurchase by a Fund. A Partner participating in a repurchase offer may be subject to a repurchase fee payable to a Fund equal to 5% of the amount requested if such Partner has been a Partner for less than 12 months prior to the Valuation Date. The minimum value of a repurchase is \$50,000, subject to the discretion of the General Partner. See "TENDER OFFERS/OFFERS TO REPURCHASE."

Risk Factors

An investment in a Fund involves substantial risks, including the risk that the entire amount invested may be lost. The Core Alternatives Institutional Fund, through its investment in the Master Fund, and the TEI Institutional Fund, through its investment in the Master Fund through the Offshore Fund, primarily allocate their assets to Advisers and

invest in Adviser Funds and Adviser Accounts that invest in and actively trade securities, commodities and other financial instruments using a variety of strategies and investment techniques that may involve significant risks. Various other types of risks are also associated with an investment in the Funds, including risks relating to the fund of funds structure of the Master Fund, risks relating to the master-feeder structure, risks relating to compensation arrangements and risks relating to the limited liquidity of the Units. Additional risks include:

- Industry Concentration Risk
- Non-Diversification Risk
- Leverage
- Turnover
- Valuation of Adviser Funds
- Highly Volatile Markets
- Counter-Party Credit Risk
- Dilution

Accordingly, the Funds should be considered speculative investments, and you should invest in the Funds only if you can sustain a complete loss of your investment. Past results of the Investment Manager or its principals, the Funds or the Advisers are not indicative of future results. See “RISK FACTORS.”

USE OF PROCEEDS

Substantially all of the proceeds from the sale of Units, net of the Core Alternatives Institutional Fund's and TEI Institutional Fund's fees and expenses, will be invested in the Master Fund by the Core Alternatives Institutional Fund, and in the Master Fund through the Offshore Fund by the TEI Institutional Fund, to pursue its investment program and objectives as soon as practicable, but in no event later than three months after receipt, consistent with market conditions and the availability of suitable investments.

DISTRIBUTION ARRANGEMENTS

General. Hatteras Capital Distributors, LLC (the "Distributor"), located at 8540 Colonnade Center Drive, Suite 401, Raleigh, North Carolina, acts as principal underwriter to the Funds on a best-efforts basis, subject to various conditions, pursuant to distribution services agreements between each Fund and the Distributor (together, the "Distribution Agreement"). There is no sales charge for purchases of the Core Alternatives Institutional Fund and the TEI Institutional Fund. The Distributor is also responsible for selecting brokers and dealers in connection with the offering of Units and for negotiating the terms of any such arrangements. The Distributor is an affiliate of the Investment Manager and it also serves as the Master Fund's placement agent.

Neither the Distributor nor any other party is obligated to buy from the Funds any of the Units. There is no minimum aggregate amount of Units required to be purchased in any offering. In addition, the Distributor does not intend to make a market in the Units.

The General Partner, Investment Manager, Distributor and/or their affiliates may make payments to selected affiliated or unaffiliated third parties (including the parties who have entered into selling agreements with the Distributor) from time to time in connection with the distribution of Units and/or the servicing of Unit holders. These payments will be made out of the General Partner's, Investment Manager's, Distributor's and/or affiliates' own assets and will not represent an additional charge to a Fund. The amount of such payments may be significant in amount and the prospect of receiving any such payments may provide such third parties or their employees with an incentive to favor sales of Units in the Funds over other investment options. Contact your financial intermediary for details about revenue sharing payments it receives or may receive.

Pursuant to the Distribution Agreement, the Distributor is solely responsible for the costs and expenses incurred in connection with (i) its qualification as a broker-dealer under state or federal laws, and (ii) the advertising or promotion of the offering of the Units. The Distribution Agreement also provides that the Funds will indemnify the Distributor and its affiliates and certain other persons against certain liabilities, including certain liabilities arising under the Securities Act of 1933, as amended.

Units in each Fund are available to investors investing through broker/dealers and other financial intermediaries where the financial intermediary and/or the Servicing Agent has agreed to provide certain administrative services.

ADDITIONAL SALES OF UNITS. Each Fund currently intends to accept initial and additional subscriptions of Units as of the first business day of each calendar month or at such other times as may be determined by the General Partner. The General Partner may discontinue accepting subscriptions for Units at any time. Any amounts received in connection with a subscription for Units will be promptly placed in an escrow account with UMB Bank, N.A., as the Funds' escrow agent, prior to their investment in a Fund. Any interest earned on escrowed amounts will be credited to the Fund. All subscriptions for Units are subject to the receipt of cleared funds prior to the applicable purchase date in the full offering price. Although a Fund may accept, in its sole discretion, a subscription prior to receipt of cleared funds, a prospective Partner may not become a Partner until cleared funds have been received, and the prospective Partner is not entitled to interest or performance returns until accepted as a Partner. The prospective Partner must also submit a completed investor application before the applicable purchase date. Each Fund reserves the right to reject any offer to purchase Units and the Investment Manager may, in its sole discretion, suspend subscriptions for Units at any time and from time to time.

MANAGEMENT OF THE FUNDS

GENERAL. Each Fund is registered under the 1940 Act as a closed-end, non-diversified management investment company. The Core Alternatives Institutional Fund and TEI Institutional Fund were formed as limited partnerships organized under the laws of the State of Delaware on June 20, 2006.

THE BOARD OF DIRECTORS. Each Fund and the Master Fund are governed by a Board of Directors (each, a "Board"), which is responsible for protecting the interests of the Partners under the 1940 Act. At least a majority of the members of each Board are independent directors. A Board is elected by its Partners and meets periodically throughout the year to oversee the applicable Fund's business, review its performance, and review the actions of the Investment Manager. "BOARDS OF DIRECTORS AND OFFICERS" in the SAI identifies the Directors and officers of each Fund and the Master Fund and provides more information about them.

The Offshore Fund has two members, the TEI Institutional Fund and the Investment Manager (which holds only a nominal non-voting interest). The TEI Institutional Fund is the managing member of the Offshore Fund, and the non-managing member has delegated the day-to-day management and general oversight responsibilities of the Offshore Fund to the TEI Institutional Fund. The Offshore Fund therefore is effectively controlled by the Board of the TEI Institutional Fund.

THE INVESTMENT MANAGER. Hatteras Investment Partners, LLC (the “Investment Manager”) is responsible for providing day-to-day investment management services to the Master Fund, subject to the ultimate supervision of and any policies established by the Board, pursuant to the terms of an investment management agreement with the Master Fund (the “Investment Management Agreement”).

Under the Investment Management Agreement, the Investment Manager is responsible for developing, implementing and supervising the Master Fund’s investment program. The Investment Manager is controlled by David B. Perkins, Founder and Chairman of Hatteras Funds. The Investment Manager along with its affiliated entities (collectively referred to as “Hatteras Funds”) is a provider of unique alternative investment solutions for financial advisors and their clients. Hatteras Funds believes that all investors should have access to the same sophisticated investment approach and superior portfolio management talent as the largest institutions. A boutique alternative investment specialist founded in 2003, Hatteras Funds offers a suite of innovative products designed to solve specific portfolio needs.

As of March 31, 2011, the Investment Manager and its affiliates had assets under management of approximately \$1.95 billion.

MANAGEMENT TEAM. The following biographies are of the members of the Investment Manager’s investment committee (the “Investment Committee”), which is primarily responsible for selecting Advisers on behalf of the Investment Manager and allocating the Master Fund’s assets among them:

DAVID B. PERKINS, CAIASM

Founder and Chairman, Hatteras Funds

Mr. Perkins is responsible for creating and implementing the strategic vision of Hatteras Funds. As a member of Hatteras’ Portfolio Management Team, Mr. Perkins oversees the firm’s investment process, including identification and optimization of investment strategies, risk management, process development and control, manager selection and due diligence, tactical and strategic asset allocation decisions, as well as strategic planning. Prior to founding Hatteras Funds, Mr. Perkins was the co-founder and Managing Partner of CapFinancial Partners, LLC, where his primary responsibilities included oversight and direction of the investment consulting process including strategic and tactical asset allocation and investment manager search and selection with a particular emphasis on alternative investment strategies. Mr. Perkins has more than two decades of experience in investment management consulting and institutional and private client relations and offers proven experience building, operating and leading client-focused businesses. Mr. Perkins received his Bachelor of Arts degree from the University of North Carolina at Charlotte and has earned the designation of Chartered Alternatives Investment Analyst (CAIA). Mr. Perkins has been a member of the Fund’s portfolio management team since its inception.

MARK W. YUSKO

Chief Investment Officer, Hatteras Core Alternatives Funds

Mr. Yusko serves as the Chief Investment Officer for the Hatteras Core Alternatives Funds (formerly, the “Hatteras Multi-Strategy Funds”). Since July 2004, Mr. Yusko has served as Chief Executive Officer and Chief Investment Officer of Morgan Creek Capital Management, LLC, a registered investment advisor headquartered in Chapel Hill, NC. Previously, Mr. Yusko was President, Chief Investment Officer, and Founder of UNC Management Company (“UNCMC”), the endowment investment office for the University of North Carolina at Chapel Hill, from 1998 to 2004. Throughout his tenure at UNCMC, Mr. Yusko directly oversaw strategic and tactical asset allocation recommendations to the Investment Fund Board, investment manager selection, manager performance evaluation, spending policy management, and performance reporting. Total assets under management were \$1.5 billion (\$1.2 billion in endowment assets and \$300 million in working capital). Until 1998, Mr. Yusko was the Senior Investment Director for the University of Notre Dame Investment Office, which he joined as the Assistant Investment Officer in October 1993. He worked with the Chief Investment Officer in all aspects of endowment management. Mr. Yusko received his Bachelor of Science degree, with honors, in Biology and Chemistry from the University of Notre Dame and a Masters of Business Administration degree in Accounting and Finance from the University of Chicago. Mr. Yusko has been a member of the Fund’s portfolio management team since its inception.

Mr. Parrott's primary responsibilities include portfolio management, hedge fund due diligence and working closely with the investment advisory relationships for the Hatteras Core Alternatives Funds. Prior to joining Hatteras Funds, Mr. Parrott was employed at Dialectic Capital in New York, where he assisted in portfolio analysis and the launch of a long/short equity hedge fund. Prior to Dialectic, Mr. Parrott was employed by Morgan Stanley and Bear Stearns as a Financial Advisor for high net worth individuals. Mr. Parrott received his Bachelor of Science degree from the University of Vermont and attended international schools in Zimbabwe and Kenya. Mr. Parrott has also earned the designation of Chartered Alternative Investment Analyst (CAIA). Mr. Parrott has been a member of the Fund's portfolio management team since its inception.

For more information about the portfolio managers' compensation, other accounts managed by the portfolio managers and the portfolio managers' ownership of securities in the Funds, see the SAI.

INVESTMENT OBJECTIVE AND STRATEGIES

INVESTMENT OBJECTIVE

THE FUNDS' INVESTMENT OBJECTIVE. The Master Fund has the same investment objective as the Funds and the Offshore Fund, which is to provide capital appreciation consistent with the return characteristic of the alternative investment portfolios of larger endowments. The Funds' secondary objective is to provide capital appreciation with less volatility than that of the equity markets. To achieve its objective, the Core Alternatives Institutional Fund will invest substantially all of its assets in the Master Fund, and the TEI Institutional Fund will invest substantially all of its assets in the Offshore Fund, which will invest substantially all of its assets in the Master Fund. The Master Fund invests substantially all of its assets with a number of Advisers selected by the Investment Manager. Generally, the Investment Manager intends to select Advisers that collectively employ widely diversified investment strategies (e.g., allocate to a spectrum of alternative investments).

ALLOCATION. To pursue their objective, the Core Alternatives Institutional Fund invests in the Master Fund, and the TEI Institutional Fund invests in the Master Fund indirectly through the Offshore Fund. The Master Fund utilizes investment strategies and uses Advisers that are typically available on a collective basis to larger institutions. The Investment Manager primarily pursues the Funds' objective by allocating the Master Fund's assets with Advisers by the Master Fund becoming an investor in an Adviser Fund. However, it may place the Master Fund's assets in an account directly managed by an Adviser ("Adviser Account"). The Investment Manager is responsible for determining the amount of assets to be allocated to each Adviser and for reallocating assets among new and existing Advisers. Generally, the Investment Manager intends to select Advisers that invest in investment strategies within hedge fund strategies and private investment strategies. However, the Investment Manager may also retain Advisers who invest in other investment strategies. These investments may be accomplished in various ways including direct investments and indirect investments such as through derivative transactions including swaps and options. Although it is not required to do so, the Investment Manager anticipates that the Master Fund will typically utilize at least 50 different Advisers. The Investment Manager is responsible for determining the amount of assets to be allocated to each Adviser and for reallocating assets among new and existing Advisers. Advisers may invest in a wide range of instruments and markets, including, but not limited to, U.S. and non-U.S. equities and equity-related instruments (including, without limitation, common and preferred stock, warrants, options, convertible stock and restricted securities), currencies, commodities, real estate, financial futures, fixed income, debt-related instruments (including corporate debt instruments), high yield bank loans, as well as securities and other financial instruments issued or guaranteed by the U.S. government or a federal agency or instrumentality, or by a non-U.S. government, agency or instrumentality. Advisers may also invest in repurchase and reverse repurchase agreements, securities lending agreements, futures contracts, spot and forward contracts, options, swaps, and hybrid, synthetic and derivative instruments.

In addition to benefiting from the Advisers' individual investment strategies, each Fund expects to achieve the benefits of the Master Fund's broad allocation of its assets among a carefully selected group of Advisers across numerous markets and investment strategies. The Investment Manager expects that by investing through multiple Advisers and across multiple investment strategies, the Master Fund may significantly reduce the volatility inherent in a more concentrated portfolio that is invested in fewer Advisers and/or strategies.

Notwithstanding the above, the Master Fund may, from time to time and subject to applicable law, invest directly in securities of operating companies, including, without limitation, in portfolio companies held by one or more Adviser Funds (whether or not the investment is sourced from an Adviser Fund in which the Master Fund is currently invested).

ACCESS. Many Adviser Funds are organized as limited partnerships that are not required to register under the 1940 Act because they do not publicly offer their securities and are restricted as to either the number of investors permitted to invest in such Adviser

Funds or as to the qualifications of persons eligible to invest (determined with respect to the value of investment assets held by the managers of such investor) in such Adviser Funds. Many of these Adviser Funds will have greater investment flexibility than traditional investment funds (such as mutual funds and most other registered investment companies) as to the types of securities owned, the nature of performance-based compensation paid to Advisers, the types of trading strategies employed, and in many cases, the amount of leverage they may use.

An investment in a Fund enables investors to invest, through the Master Fund's investments, with Advisers whose services typically are not available to the general investing public, whose investment funds may be closed from time to time to new investors or who otherwise may place stringent restrictions on the number and type of persons whose money they will manage. An investment in a Fund also enables investors to invest with a cross-section of investment strategies without incurring the high minimum investment requirements that Advisers typically would impose on investors.

CAPITAL ALLOCATION DECISIONS. The Funds expect the Master Fund to allocate its assets broadly among various investment strategies, and to have target ranges for the allocation of capital among such investment strategies. However, the allocation ranges provide the latitude for the Investment Manager to allocate more or less capital to a particular investment strategy depending on the Investment Manager's belief about the opportunities for attractive risk-adjusted returns afforded by that investment strategy over a given investment time horizon. In making such allocation decisions, the Investment Manager will consider national and international economic and geopolitical conditions, the risks incident to the investment strategy and the return opportunities for such strategy (among other considerations) and gauge these factors versus the relative opportunities with other investment strategies and the need for a broad portfolio to reduce risk (as measured by volatility).

The Funds' investment objective is non-fundamental and may be changed by the Board without the approval of the Partners. Except as otherwise stated in this Prospectus or the Limited Partnership Agreement of a Fund, the investment policies, allocation ranges, strategies and restrictions of the Funds are not fundamental and may be changed by the Board without the approval of the Partners. The Funds' principal investment policies and strategies are discussed below.

INVESTMENT STRATEGIES

The Core Alternatives Institutional Fund seeks to achieve its investment objective by investing substantially all of its assets in the Master Fund, which in turn will invest its assets in Adviser Funds managed by Advisers, with the objective of adding additional Adviser Funds as the Master Fund's assets grow and the need to diversify among additional Adviser Funds increases. The TEI Institutional Fund seeks to achieve its investment objective by investing substantially all of its assets in its corresponding Offshore Fund, which in turn will invest its assets in the Master Fund, which in turn will invest its assets in Adviser Funds managed by Advisers, with the objective of adding additional Adviser Funds as the Master Fund's assets grow and the need to diversify among additional Adviser Funds increases. The following is a description of each of the investment strategies within the hedge fund and private investment strategies in which the Advisers will invest:

HEDGE FUND STRATEGIES

OPPORTUNISTIC EQUITY

- Long/Short Public Equity
- Sector Specialist

The Opportunistic Equity investment strategy is generally composed of Adviser Funds that predominantly invest in all global markets, including the U.S. domestic markets, and predominantly invest in equity securities. While the Opportunistic Equity investment strategy consists of Adviser Funds that trade predominantly in equity securities, certain of the Advisers chosen may additionally invest all or a portion of the Adviser Funds in debt or other instruments.

These Advisers will opportunistically allocate capital to those markets around the globe which they believe present the best opportunities for profit based on either the Adviser's fundamental company valuation analysis or perceived macroeconomic shifts. To achieve an appropriately broad range of investments, the Master Fund may employ more than one Opportunistic Equity Adviser, each of which will typically focus on particular geographical markets in a general set of market capitalization ranges and/or employ a particular style of investing.

Within the Opportunistic Equity investment strategy, the Long/Short Public Equity strategy primarily involves investments in publicly traded equity instruments. This strategy involves identifying securities that are mispriced relative to related securities, groups of securities, or the overall market. Advisers that manage Long/Short Public Equity Adviser Funds generally derive performance by establishing offsetting positions (a "long" and "short" position) based on perceived disparities in the relative values of the positions or

portfolio of positions. Unlike “long only” managers, Long/Short Public Equity Advisers will almost always have “short” positions in stocks, and may also use a variety of other tools designed to enhance performance (e.g., leverage), mitigate risk and/or protect profits (e.g., market “puts” and “calls,” etc.). An Adviser within the strategy may run a net “long” position; provided, however, that the net “long” position will typically be less than those included in the traditional “long” equity portfolio.

Investments may represent short-term trading opportunities or a longer-term fundamental judgment on the relative performance of a security. The Investment Manager believes key capabilities in long/short equity investing are in-depth fundamental and regulatory analysis, industry experience, and/or valuation and financial modeling. It is important to note that an Adviser may employ all or a portion of these capabilities in constructing its portfolio. There can be no assurance that any such hedging techniques will be successful or that the hedging employed by the Adviser will not have the negative effect of lowering overall returns, or creating losses, in the portfolio or with respect to the applicable position.

The Sector Specialist strategy involves investing in companies in specific market sectors, such as the financial, technology, healthcare, real estate, energy or natural resource sectors.

ENHANCED FIXED INCOME

- High Yield Debt
- Distressed Securities
- Structured Credit
- Opportunistic Credit

The Enhanced Fixed Income investment strategy seeks to provide superior risk-adjusted investment performance by focusing on less efficient areas of the global fixed income markets (including certain sectors of the U.S. fixed income markets). In general, this investment strategy encompasses High Yield Debt, Distressed Securities, Structured Credit and Opportunistic Credit investing (including, among other things, in emerging markets). To achieve an appropriately broad allocation of investments, the Master Fund may employ more than one Adviser in each Enhanced Fixed Income investment strategy, with the objective of gaining diversification in geography (to minimize the economic or currency risk of a particular country or region), credit quality, issuers, industrial segment and/or other factors important to generate a broad portfolio. It is important to note that some or all of these factors may not be included in the construction of this portion of the portfolio.

The High Yield Debt strategy involves investing predominantly in the debt of financially troubled, or stressed, companies. These companies are generally experiencing financial difficulties that have either led to a default on their indebtedness or increased the likelihood of default. A default may be related to missing a payment of interest or principal when due (“payment default”), which is generally considered a major default, or more minor events of default, such as breaking a financial ratio (e.g., if the debt instrument requires a 2:1 cash flow to debt payment ratio, having a ratio of less than 2:1). These more minor events of default may be waived by the creditor (generally the trustee of the bond issuance), but evidence an increased likelihood that the issuer will not be able to pay the indebtedness when due. Thus, in the event that a company is experiencing financial difficulties (which is generally the case), the Investment Manager believes it is important to determine the following: (1) the capital structure of the company (particularly debt that is senior to the debt issuance being considered); (2) the asset base of the company (what would be realized in a distressed liquidation mode that is generally less than what the assets would be worth in a more orderly disposition); and (3) whether this liquidation covers senior obligations and generates sufficient proceeds to repay the debt instrument being purchased. This would represent the liquidation value of the company and give the High Yield Debt Adviser the “downside” case. In addition, the High Yield Debt Adviser would typically analyze the company to determine the ability of the company to correct any operational difficulties, weather a recession or downturn in its industry or otherwise return to operational health. This requires strong fundamental analysis to determine the company’s current health, its prospects for returning to financial health based on current trends or management plans, and the current and prospective operational and economic environment (“fundamental analysis”). In other contexts, a high yield instrument may be one that is issued by a company that still is an investment grade company (but typically in the lower end of investment grade) but may have a specific contingent liability clouding its horizon (e.g., underfunded pension obligations), be in an industry that is experiencing significant turmoil or is in a troubled region of the world, etc. Thus, the Investment Manager believes a critical aspect of investing in high yield fixed income instruments is analyzing these type and other types of exogenous events. High Yield Debt Advisers will generally consider, among other factors, the price of the security, the prospects of the issuer, the company’s history, management and current conditions when making investment decisions. It is important to note that some or all of these factors may not be included in the construction of this portion of the portfolio. Investments may involve both U.S. and non-U.S. entities and may utilize leverage.

Distressed Securities strategies entail investing in the debt of companies experiencing significant financial or operational difficulties that often lead to bankruptcies, exchange offers, workouts, financial reorganizations, and other special credit event-related situations. These companies are generally experiencing even greater difficulties than companies in the “high yield” category. These

securities generally trade at significant discounts to par value, because of these difficulties and because certain classes of investors are precluded, based on their investment mandates, from holding low-credit instruments. Profits are generally made based on two kinds of mispricings: (1) fundamental or intrinsic value; and (2) relative value between comparable securities. The Investment Manager believes that the main competencies required to successfully implement these strategies lie in correctly valuing the intricacies of distressed businesses and industries as well as in adequately assessing the period over which the capital will be invested.

Distressed Securities Advisers may seek to identify distressed securities in general or focus on one particular segment of the market (such as the senior secured debt sector, subordinated notes, trade claims or distressed real estate obligations) depending on their expertise and prior experience. Additionally, Distressed Securities Adviser Funds may be diversified across passive investments in the secondary market, participations in merger and acquisition activity, or active participation in a re-capitalization or restructuring plan. It is important to note that some or all of these factors may not be included in the construction of this portion of the portfolio. Distressed Securities Advisers may actively attempt to modify or improve a restructuring plan with the intent of improving the value of such securities upon consummation of a restructuring. Additionally, they may take an active role and seek representation in management on a board of directors or a creditors' committee. In order to achieve these objectives, Distressed Securities Advisers may purchase, sell, exchange, or otherwise deal in and with restricted or marketable securities including, without limitation, any type of debt security, preferred or common stock, warrants, options, and hybrid instruments.

Advisers utilizing the Structured Credit strategy invest in tranching securities issued by synthetic collateralized debt obligations by creating custom securities to go both long and short credits. Such investments include residential mortgage-backed securities, commercial mortgage-backed securities, asset-backed securities and other collateralized debt obligations ("CDOs").

CDOs are debt instruments backed by a pool of other debt securities. CDOs include collateralized bond obligations ("CBOs") and collateralized loan obligations ("CLOs") and other similarly structured securities. A CBO is a trust or other special purpose entity that is typically backed by a diversified pool of fixed-income securities (which may include high risk, below investment grade securities). A CLO is a trust or other special purpose entity that is typically collateralized by a pool of loans, which may include, among others, domestic and non-U.S. senior secured loans, senior unsecured loans, and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans.

Each mortgage pool underlying residential and commercial mortgage-backed securities consists of mortgage loans evidenced by promissory notes secured by mortgages or deeds of trust or other similar security instruments creating a lien on owner occupied and non-owner occupied residential, commercial or mixed use properties. The investment characteristics of adjustable and fixed rate mortgage-backed securities differ from those of traditional fixed-income securities. The major differences include the payment of interest and principal on mortgage-backed securities on a more frequent (usually monthly) schedule, and the possibility that principal may be prepaid at any time due to prepayments on the underlying mortgage loans or other assets.

Asset-backed securities represent participations in, or are secured by and payable from, assets such as motor vehicle installment sales, installment loan contracts, leases of various types of real and personal property, receivables from revolving credit (credit card) agreements and other categories of receivables. Such assets are securitized through the use of trusts and special purpose corporations. Payments or distributions of principal and interest may be guaranteed up to certain amounts and for a certain time period by a letter of credit or a pool insurance policy issued by a financial institution unaffiliated with the trust or corporation, or other credit enhancements may be present.

Opportunistic Credit Advisers take long or short positions in credit markets. This strategy includes global debt investing, which involves purchasing debt securities including bonds, notes and debentures issued predominantly by non-U.S. corporations; debt securities issued predominantly by non-U.S. Governments; or debt securities guaranteed by non-U.S. Governments or any agencies thereof. Global debt investing generally consist of Adviser Funds investing in global fixed income portfolios and/or emerging markets debt securities. The Master Fund may invest in more than one Opportunistic Credit Adviser, with a goal of gaining diversification.

ABSOLUTE RETURN

- Event Driven Arbitrage
- Convertible Arbitrage
- Merger Arbitrage
- Fixed Income Arbitrage
- Volatility Arbitrage
- Statistical Arbitrage

The Absolute Return investment strategy is defined herein as having a relatively low or negative correlation to the equity markets. In addition, certain strategies within the Absolute Return investment strategy may have less volatility through the use of arbitrage based strategies and hedging tools (e.g., "market" puts and calls, etc.).

Event Driven Arbitrage centers on investing in securities of companies facing a major corporate event. The goal is to identify securities with a favorable risk-reward ratio based on the probability that a particular event will occur. Such events include, but are not limited to, corporate events, such as restructurings, spin-offs and significant litigation (e.g., tobacco litigation). Opportunities in this area are created by the reluctance of traditional investors to assume the risk associated with certain corporate events.

The Convertible Arbitrage strategy typically involves the purchase of a convertible debt or preferred equity instrument (an instrument that is effectively a bond or has a fixed obligation of repayment with an embedded equity option, non-detachable warrants or an equity-linked or equity-indexed note) concurrent with the short sale of, or a short over-the-counter derivative position in, the common stock of the issuer of such debt instrument. Investment returns are driven by a combination of an attractive coupon or dividend yield, interest on the short position and the level of the underlying stock's volatility (which directly affects the option value of the security's conversion feature). The Investment Manager believes that some of the key capabilities necessary to successfully run a Convertible Arbitrage portfolio include, among other things: reviewing the convertible market for attractive investment opportunities, accurately modeling the conversion option value, and in-depth fundamental credit analysis in building and managing the Convertible Arbitrage portfolio.

The Master Fund may invest in one or more Advisers with exposure in the Convertible Arbitrage strategy to provide greater diversification across markets (U.S. and non-U.S. issues), sectors, credit ratings, and market capitalizations.

The Merger Arbitrage strategy involves taking short and long investment positions in the stock of acquiring and target companies upon the announcement of an acquisition offer. Acquisitions are typically paid for in stock, cash or a combination thereof. Therefore, when an acquisition is announced, the acquiring company ("Acquiror") will establish a price per share of the company being acquired ("Target") in cash (per share cash price), stock (a share ratio is established) or a combination thereof. Typically, the Target is traded for less than the price being paid (in either cash or stock) prior to the announcement. When the announcement is made, the Target's stock price will typically increase but still trade at a discount to the price being offering by the Acquiror. This discount – and the size of the discount – is principally a function of three factors: (1) the risk that the acquisition will close; (2) the time frame for closing (i.e., the time value of money); and (3) the amount of liquidity or capital being deployed by merger arbitrageurs and other investors. Accordingly, if a merger arbitrageur or investor believes that the risk of the acquisition not closing is not significant relative to the returns that can be generated by the "spread" between the current stock price of the Target and the price being offered by the Acquiror, the merger arbitrageur or investor will generally buy shares of the Target and "short" shares of the Acquiror in a stock-for-stock transaction. When the deal closes, the risk premium vanishes and the Adviser's profit is the spread.

Fixed Income Arbitrage is designed to identify and exploit anomalous (typically based on historical trading ranges) spreads in the prices of related securities. Such disparities, or spreads, are often created by imbalances in supply and demand of different types of issues (for example, agency securities relative to U.S. Treasury securities). A combination of macroeconomic analysis, political risk analysis, analysis of government policy and sophisticated financial modeling is oftentimes used to identify pricing anomalies. A typical arbitrage position consists of a long position in the higher yield, and therefore lower priced, security and a short position in the lower yield, higher priced security. For example, agencies of a similar duration of U.S. Treasury bills have over time established a relatively well defined trading range and carry a higher interest rate or yield. When agency securities trade at a discount to this range (e.g., when there is discussion about whether agencies should continue to receive a U.S. government guarantee), such agency securities will trade at a higher than normal discount to U.S. Treasury securities (reflected by a higher current yield in agency securities). Accordingly, in such a situation, an Adviser would typically buy the agency securities "long" and then "short" the U.S. Treasury securities. When the spread narrows or becomes more in line with historical norms, the Adviser generates a profit by closing its position. In general, these fixed income investments are structured with the expectation that they will be non-directional and independent of the absolute levels of interest rates. As interest rate exposure is typically "hedged out," these strategies generally exhibit little to no correlation to the broader equity and bond markets.

Fixed Income Arbitrage may also include buying fixed income or yield bearing instruments "long" with a higher coupon or yield and "shorting" a shorter duration instrument with a lower coupon. The Adviser typically makes a "spread" on the difference between the higher yielding "long" position and the lower yielding "short" position. Investment banks may allow an Adviser to use significant leverage in these positions (particularly if the instruments are investment grade corporate securities or government securities).

Volatility Arbitrage entails the use of derivative investments and can be used on both a stand-alone basis and as a hedging strategy in conjunction with other investment strategies. As a stand-alone strategy, exchange-traded domestic or global index options and/or options on futures contracts are used to exploit anomalies in the pricing of volatilities in related assets. There are several well-defined related securities and/or asset classes that Volatility Arbitrage Advisers typically follow to determine when they are out of their historical trading ranges. By continually monitoring these relationships, the Adviser can attempt to identify when the securities or asset classes trade out of their normal trading range and can put a trade on when there has not been a fundamental, or exogenous, change in the relationship. This strategy thus seeks to profit when overall market index volatility declines, reverting back to a more normal historical range. As an adjunct strategy, these same derivative instruments can be used to manage risk and enhance returns on investments made utilizing other strategies.

Statistical Arbitrage strategies seek to profit from offsetting long and short positions in stocks or groups of related stocks exhibiting pricing inefficiencies that are identified through the use of mathematical models. The strategy primarily seeks out these inefficiencies by comparing the historical statistical relationships between related pairs of securities (e.g., intra-industry or competitor companies). Once identified, the Adviser will establish both long and short positions and will often utilize leverage as the identified discrepancies are usually very slight in nature. A strong reliance on computer-driven analysis and relatively minute pricing inefficiencies are what typically separate this strategy from a more traditional long/short equity strategy. Though typically market neutral in nature, a Statistical Arbitrage portfolio's gross long and short positions may be significantly large and portfolio turnover can often be high.

In addition to identifying related pairs of securities, statistical arbitrageurs will also seek out inefficiencies in market index constructions. This index arbitrage strategy is designed to profit from temporary discrepancies between the prices of the stocks comprising an index and the price of a futures contract on that index. For example, by buying the 500 stocks comprising the S&P 500 Index and simultaneously selling an S&P 500 futures contract, an investor can profit when the futures contract is expensive relative to the underlying basket of stocks based on statistical analysis. Like all arbitrage opportunities, index arbitrage opportunities typically disappear once the opportunity becomes better-known and other investors act on it.

TACTICAL TRADING

- Global Macro/ Managed Futures

The Tactical Trading investment strategy is composed generally of Advisers who engage in directional trading strategies. Some of the Tactical Trading strategies incorporate equity assets as well as currencies, commodities and debt instruments. Commodity trading advisors ("CTAs") and managed futures managers are included in the Tactical Trading investment strategy. The Tactical Trading investment strategy will have a relatively low correlation to the equity markets.

Advisers utilizing the Global Macro/Managed Futures strategy typically seek to generate income and/or capital appreciation through a portfolio of investments focused on macro-economic opportunities across numerous markets and instruments. This strategy may include positions in the cash, currency, futures and forward markets. These Advisers employ such approaches as long/short strategies, warrant and option arbitrage, hedging strategies, inter- and intra-market equity spread trading, futures, options and currency trading, and emerging markets (debt and equity) and other special situation investing. Trading positions are generally held both long and/or short in both U.S. and non-U.S. markets. Global Macro/Managed Futures strategies are generally categorized as either discretionary or systematic in nature and may assume aggressive investment postures with respect to position concentrations, use of leverage, portfolio turnover, and the various investment instruments used. With a broader global scope, returns to the Global Macro/Managed Futures strategy generally exhibit little to no correlation with the broader domestic equity and bond markets. Advisers that are CTAs are registered with the Commodity Futures Trading Commission and generally actively trade futures and options on futures to manage portfolios.

PRIVATE INVESTMENT STRATEGY

PRIVATE INVESTMENTS

- Private Equity
- Private Real Estate
- Private Energy and Natural Resources

Private Equity investing seeks to generate capital appreciation through investments in private companies in need of capital. The Private Equity strategy seeks to profit from, among other things, the inefficiencies inherent in these markets through valuation and due diligence analysis of available business opportunities. Over time, the Master Fund will attempt to invest in a group of Adviser Funds that vary widely: sector, size, stage (venture, mezzanine, etc.), duration, liquidity, and the extent to which the Advisers take an active role in managing and operating the business. Additionally, it is expected that Adviser Funds will engage in both direct investment and co-investment private equity deals. The Investment Manager believes that the key capabilities necessary to successfully structure private equity transactions include, among other things, comprehensive business operations analysis; competitive industry landscape analysis; legal, environmental and other contingent liability analysis; ability to gauge management skill and effectiveness; ability to align interests of company management and the Adviser Fund; and ability to ascertain the optimal financing vehicle and structure.

Investment in the Private Real Estate strategy consists generally of investing in Adviser Funds that are private partnerships that make direct investments in (i) existing or newly constructed income-producing properties, including office, industrial, retail, and multi-family residential properties, (ii) raw land, which may be held for development or for the purpose of appreciation, and/or (iii) timber (whether directly or through a REIT or other Adviser Fund).

Advisers whose Adviser Funds are private partnerships that invest in real estate typically offer the opportunity to generate high absolute returns, but without the liquidity offered by REITs. These Advisers will invest mainly in established properties with existing rent and expense schedules or in newly constructed properties with predictable cash flows or in which a seller agrees to provide certain minimum income levels. On occasion, these Advisers may invest in raw land, which may be acquired for appreciation or development purposes. These Advisers typically provide their investors with a current yield (generally from rental or lease income on properties) and will often seek to generate capital gains through the sale of properties. However, these Advisers often do not provide their investors with the right to redeem their investment in the Adviser Fund, thus the investors only gain liquidity in their investment through the distribution of rental income and the ultimate liquidation or sale of real estate assets held by the Adviser Fund.

Adviser Funds may additionally invest in foreign real estate or real estate-related investments. The Master Fund will consider the special risks involved in foreign investing before investing in foreign real estate and will not invest unless an underlying Adviser Fund has exhibited prior expertise in the foreign markets in which it invests.

Investment in the Private Energy and Natural Resources strategy consists generally of investing in Adviser Funds that are private partnerships that make direct investments in private or (sometimes) publicly traded energy companies. The types of companies included within the “energy” sector will include a diverse range of energy industry sectors, including: oilfield service and equipment manufacturing sectors, exploration and production, technology, pipelines and storage, and power generation and transmission. Securities issued by private partnerships investing in energy or natural resources may be more illiquid than securities issued by other Adviser Funds generally, because the partnerships’ underlying energy and natural resources investments may tend to be less liquid than other types of investments. Also, Adviser Funds in the Private Energy and Natural Resources strategy may invest in other natural resources, such as timberlands, basic metals (e.g., iron, aluminum, and copper), precious metals (e.g. gold, silver, platinum and palladium) and other basic commodities.

OVERVIEW OF INVESTMENT PROCESS

MANAGER CRITERIA; PORTFOLIO CONSTRUCTION. The Funds strive to maintain a broad allocation of their assets, both with regard to allocation of assets among Advisers and also allocation of assets among various investment strategies, as set forth below. In general, studies indicate that a broadly allocated portfolio enables an investor to generate more consistent returns than one that is more concentrated. Accordingly, a broad allocation of assets is generally noted as a means to reduce investment risk as measured by volatility. Correspondingly, while a broad allocation of assets generally lowers volatility and helps to mitigate the risk of investment losses, an unconcentrated portfolio is subject to limitations on its ability to generate relatively high investment returns than a more concentrated portfolio can sometimes generate. Accordingly, an unconcentrated portfolio may be appropriate for investors that want less volatility in their portfolio and are willing to accept relatively lower, but generally more consistent, returns than a portfolio concentrated in a very few investment strategies or Advisers.

In general, the Master Fund seeks to allocate its assets in two ways: (1) allocation among various investment strategies; and (2) allocation among Advisers. The Master Fund may allocate assets to more than one Adviser Fund sponsored by the same Adviser, such as in the event that an Adviser sponsors Adviser Funds in various investment strategies.

MANAGER DIVERSIFICATION. The Investment Manager defines “manager risk” as the risk that an Adviser will not generate the returns commensurate with the mean of the Adviser’s peer group (e.g., same investment strategy and investment style) because of (a) poor fundamental analysis and/or security selection, (b) market timing, (c) management turnover within the Adviser or (d) other factors or circumstances that affect that Adviser’s performance specifically that are not caused by market conditions within the Adviser’s investment strategy generally. Manager risk may be reduced by, among other things, due diligence conducted on the Advisers and diversifying across multiple Advisers within the same or similar investment strategy.

Accordingly, the Investment Manager, on behalf of each Fund, generally attempts to allocate assets among multiple Advisers to achieve an appropriately broad allocation among investment strategies and also among Advisers. The Master Fund generally does not invest assets that, at the time invested, represent more than 5% of its net assets with any one Adviser Fund or 15% of its net assets with any family of funds known by the Investment Manager to be managed by the same Adviser. It is important to note, however, that the Master Fund may invest less than 5% of its net assets with an Adviser Fund or 15% of its assets with an Adviser, and through appreciation of the Adviser Fund or Funds or depreciation of the other Adviser Funds owned by the Master Fund, these limitations may be exceeded. In such a case, the Investment Manager will reduce the Master Fund’s exposure to such Adviser Fund or Adviser, as the case may be, as soon as reasonably practicable. In addition, the Master Fund shall not invest capital, which at the time invested, represents more than 10% of an Adviser Fund’s assets. For purposes of this calculation, an Adviser Fund’s assets shall be deemed to include the assets in all of the Adviser’s accounts that are managed using a strategy substantially similar to the Adviser Fund.

ALLOCATION AMONG INVESTMENT STRATEGIES. The allocation ranges are generally intended to be as follows during normal market conditions:

<u>Investment Strategy</u>	<u>Min.</u>	<u>Range</u>	<u>Max.</u>
		<u>Target</u>	
Hedge Fund Strategies		75%	
Opportunistic Equity	20%	30%	40%
Enhanced Fixed Income	10%	20%	30%
Absolute Return	10%	15%	20%
Tactical Trading	5%	10%	15%
Private Investment Strategy (1)		25%	
Private Investments	20%	25%	30%

(1) Securities issued by private partnerships may be more illiquid than securities issued by other Adviser Funds generally, because such partnerships’ underlying investments may tend to be less liquid than other types of investments. The Investment Manager anticipates that attractive opportunities to invest in such partnerships will typically occur only periodically, as the Advisers in this investment strategy often only raise capital for new partnerships when existing partnerships are substantially invested.

INVESTMENT MANAGER’S RIGHT TO ALTER ALLOCATION RANGES. Subject to the Limited Partnership Agreement of each Fund, the Investment Manager may, in its discretion, change or modify the allocation ranges from time to time.

DUE DILIGENCE AND SELECTION OF ADVISERS

GENERAL. It is the responsibility of the Investment Manager to research and identify Advisers, to satisfy itself as to the suitability of the terms and conditions of the Adviser Funds and to allocate or reallocate the Master Fund’s assets among Advisers and investment strategies. In the event that the Master Fund has one or more sub-advisers, it is also the responsibility of the Investment Manager to negotiate the investment subadvisory agreements, subject to requisite approval by the Partners or SEC exemptive relief from such requirements. There can be no assurance that the Funds will seek, or that the SEC will grant, such exemptive relief. The Investment Manager allocates the Master Fund’s assets among Advisers using the diverse knowledge and experiences of the Investment Committee members to assess the capabilities of the Advisers and to determine an appropriate mix of investment strategies, sectors and styles given the prevailing economic and investment environment. The Advisers with which the Master Fund invests may pursue various investment strategies and are subject to special risks. See “RISK FACTORS — GENERAL RISKS” and “RISK FACTORS — INVESTMENT-RELATED RISKS.”

PROCESS OF PORTFOLIO CONSTRUCTION. The Investment Manager generally intends to employ a multi-step process in structuring and monitoring the Master Fund’s portfolio.

Step 1: The Investment Manager will attempt to develop a pool of potential Adviser Funds to consider for investment. The Investment Committee will use its expertise and contacts in the investment management industry, along with third party publications and databases, to gain coverage of relevant investment opportunities across strategies, sectors, risk tolerances and objectives.

Step 2: The Investment Committee will attempt to identify potential Adviser Funds based on quantitative, qualitative, or due diligence criteria. In its quantitative consideration of potential investments, the Investment Manager may undertake a variety of analyses to screen prospective Adviser Funds. Quantitative considerations may include, among other things, an analysis of each Adviser Fund’s return, risk (as measured by the volatility of a prospective Adviser Fund’s returns), drawdowns (any period during which a prospective Adviser Fund’s value is below its previous highest value; that is, any period during which it has suffered a loss), and correlations (the statistical relationship between a prospective Adviser Fund’s return and the return of other Adviser Funds or certain markets) on both an individual basis and relative to its associated strategy. In addition, the Investment Manager may consider certain historical portfolio information for each prospective Adviser Fund.

The potential Adviser Funds may also be evaluated on the basis of certain qualitative or due diligence criteria. Qualitative considerations may include, among other things, organizational profile, assets under management, quality and experience of key investment personnel, depth and continuity of the investment team, quality of administrative systems and support staff, ability to implement strategies, and a consideration of various risk control philosophies employed by the various Advisers.

Step 3: Once a broad pool of potential Adviser Funds has been identified, the Investment Committee then determines an allocation for the Master Fund’s assets across the pool, consistent with the allocation ranges then in effect. In creating the Master Fund’s allocation targets (which shall be within the allocation ranges then in effect), the Investment Committee will analyze the performance results associated with each potential Adviser Fund and its investment strategy to determine the return, risk, and

correlation relationships within and between each investment strategy and potential Adviser Fund over time. The Investment Committee may also analyze existing and developing market, economic, and/or financial trends.

Step 4: The fourth step will see this due diligence effort revisited from time to time for the life of the Master Fund. The Investment Manager intends to monitor the overall level of assets managed, the estimated capacity of each Adviser Fund, any management or firm ownership changes and the adherence to the pre-defined strategy and risk/return targets set forth when the investment was made. The Investment Committee will regularly monitor the returns of each Adviser Fund in an effort to evaluate whether its return pattern is consistent with the expected return pattern for that particular Adviser Fund or investment strategy, as applicable. If any Adviser Fund's returns fall outside certain limits established by the Investment Committee, the Investment Committee may carry out a formal review of the Adviser Fund to determine if a reallocation of the Master Fund's assets is necessary. As a general matter, an Adviser who can provide statistical evidence that its management consistently outperforms its peers within the Adviser Fund's investment strategy (whether based on net performance after fees and expenses or on a risk-adjusted basis, taking into account volatility) will be favored over investment advisers whose records do not provide such evidence. In addition, the Investment Committee will also seek to add Adviser Funds that provide certain types of exposure or risk-return tendencies that complement the entire investment portfolio of the Funds or other Adviser Funds within that particular investment strategy.

RISK FACTORS

All investments carry risks to some degree. The Funds cannot guarantee that their investment objective will be achieved or that the Master Fund's strategy of investing in the Adviser Funds will be successful. **Investments In The Funds Involve Substantial Risks, Including The Risk That The Entire Amount Invested May Be Lost.** The Core Alternatives Institutional Fund, through its investment in the Master Fund, and the TEI Institutional Fund, through its investment in the Offshore Fund and Master Fund, allocate their assets to Advisers and invest in Adviser Funds (or open Adviser Accounts) that invest in and actively trade securities and other financial instruments using a variety of strategies and investment techniques that may involve significant risks. Various other types of risks are also associated with investments in the Funds, including risks relating to the fund of funds structure of the Master Fund, risks relating to the master-feeder structure of the Funds, risks relating to compensation arrangements and risks relating to the limited liquidity of the Units. In addition, Partners should be aware that by combining the Prospectus of each Fund into this one document, there is the possibility that one Fund may be liable for any misstatements in the Prospectus about the other Fund. To the extent a Fund incurs such liability, a Partner's investment in the Fund could be adversely affected.

GENERAL RISKS

LACK OF OPERATING HISTORY OF ADVISER FUNDS. Certain Adviser Funds may be newly formed entities that have no operating histories. In such cases, the Investment Manager may evaluate the past investment performance of the applicable Advisers or of their personnel. However, this past investment performance may not be indicative of the future results of an investment in an Adviser Fund. Although the Investment Manager, its affiliates and their personnel have considerable experience evaluating the performance of alternative asset managers and providing manager selection and asset allocation services to clients, the Funds' investment programs should be evaluated on the basis that there can be no assurance that the Investment Manager's assessments of Advisers, and in turn their assessments of the short-term or long-term prospects of investments, will prove accurate. Thus, the Funds may not achieve their investment objective and each Fund's NAV may decrease.

MASTER/FEEDER STRUCTURE. The Master Fund may accept investments from other investors (including other feeder funds), in addition to the Funds. The Master Fund currently has other investors that are feeder funds, and it may have additional investors in the future, including feeder funds managed by the Investment Manager or an affiliate thereof. Because each Fund and the Master Fund, as well as any other feeder fund, can set its own transaction minimums, feeder-specific expenses, and other conditions, one fund could offer access to the Master Fund on more attractive terms, or could experience better performance, than the Funds. Smaller feeder funds may be harmed by the actions of larger feeder funds. For example, a larger feeder fund will have more voting power than each Fund over the operations of the Master Fund. If other feeder funds tender for a significant portion of their interests in a repurchase offer, the assets of the Master Fund will decrease. This could cause each Fund's expense ratio to increase to the extent contributions to the Master Fund do not offset the cash outflows.

NON-DIVERSIFIED STATUS. Each Fund is "non-diversified" under the 1940 Act. That means that the Funds are not subject to limitations under the 1940 Act on the percentage of its assets that may be invested in the securities of any one issuer, market segment or Adviser Fund. Each Fund's and the Master Fund's NAVs may therefore experience greater volatility than that of an investment company that is subject to such limitations. This policy gives the Master Fund more flexibility to invest in the obligations of a single borrower or issuer than if it were a "diversified" fund.

INDUSTRY CONCENTRATION RISK. Adviser Funds generally are not subject to industry concentration restrictions on their investments and, in some cases, may invest 25% or more of the value of their total assets in a single industry or group of related

industries. Although the Funds do not believe it is likely to occur given the nature of their investment program, it is possible that, at any given time, the assets of Adviser Funds in which the Master Fund has invested will, in the aggregate, be invested in a single industry or group of related industries constituting 25% or more of the value of their combined total assets. However, because these circumstances may arise, each Fund is subject to greater investment risk to the extent that a significant portion of its assets may at some times be invested, indirectly through investments the Master Fund makes in the Adviser Funds, in the securities of issuers engaged in similar businesses that are likely to be affected by the same market conditions and other industry-specific risk factors. Adviser Funds are not generally required to provide current information regarding their investments to their investors (including the Funds). Thus, the Funds and the Investment Manager may not be able to determine at any given time whether or the extent to which Adviser Funds, in the aggregate, have invested 25% or more of their combined assets in any particular industry.

REPURCHASE OFFERS; LIMITED LIQUIDITY; IN-KIND DISTRIBUTIONS. Each Fund will offer to purchase only a small portion of its Units (generally each quarter), and there is no guarantee that Partners will be able to sell all of the Units that they desire to sell in any particular repurchase offer. If a repurchase offer is oversubscribed, each Fund may repurchase only a pro rata portion of the Units tendered by each Partner. The potential for proration may cause some investors to tender more Units for repurchase than they wish to have repurchased.

The Core Alternatives Institutional Fund's assets consist primarily of its interest in the Master Fund. The TEI Institutional Fund's assets consist primarily of its interest in the Master Fund held through its investment in the Offshore Fund. Accordingly, the Funds will be required to liquidate a portion of their interest in the Master Fund in order to fund repurchases. In order to liquidate its interest in the Master Fund, the Offshore Fund (which is effectively controlled by the TEI Institutional Fund's Board) must accept repurchase orders made by the Master Fund and distribute the proceeds of such repurchases to the TEI Institutional Fund.

The Funds' repurchase policy will have the effect of decreasing the size of each Fund over time from what it otherwise would have been. Such a decrease may therefore force the Master Fund to sell assets it would not otherwise sell. It may also reduce the investment opportunities available to the Master Fund and cause its expense ratio to increase. In addition, because of the limited market for the Master Fund's private equity, real estate venture capital and energy and natural resource investments, the Master Fund may be forced to sell its more liquid securities in order to meet cash requirements for repurchases. This may have the effect of substantially increasing the Master Fund's ratio of illiquid investments to liquid investments for the remaining investors.

Payment for repurchased Units may require the Master Fund to liquidate portfolio holdings earlier than the Investment Manager would otherwise want, potentially resulting in losses, and may increase the Master Fund's portfolio turnover, subject to such policies as may be established by the Board in an attempt to avoid or minimize potential losses and turnover resulting from the repurchase of Units.

If a Partner tenders all of its Units (or a portion of its Units) in connection with a repurchase offer made by a Fund, that tender may not be rescinded by the Partner after the date on which the repurchase offer terminates. However, although the amount payable to the Partner will be based on the value of the Master Fund's assets as of the repurchase date, the value of Units that are tendered by Partners generally will not be determined until a date approximately one month later. Thus, a Partner will not know its repurchase price until after it has irrevocably tendered its Units.

LIMITED LIQUIDITY; IN-KIND DISTRIBUTIONS. Units in each Fund provide limited liquidity since Partners will not be able to redeem Units on a daily basis because the Funds are closed-end funds. A Partner may not be able to tender its interest in a Fund promptly after it has made a decision to do so. In addition, with very limited exceptions, Units are not transferable, and liquidity will be provided only through repurchase offers made from time to time by the Funds. Units in the Funds are therefore suitable only for investors who can bear the risks associated with the limited liquidity of Units and should be viewed as a long-term investment.

Each Fund expects to distribute cash to the Partners for Units that are repurchased. However, there can be no assurance that each Fund will have sufficient cash to pay for Units that are being repurchased or that each will be able to liquidate investments at favorable prices to pay for repurchased Units. Adviser Funds may be permitted to redeem their interests in-kind. Thus, upon a Fund's withdrawal of all or a portion of its interest in the Master Fund, the Master Fund may liquidate certain holdings in Adviser Funds. The Adviser Funds may pay the Funds' redemption proceeds in securities that are illiquid or difficult to value. In these circumstances, the Investment Manager would seek to dispose of these securities in a manner that is in the best interests of each Fund. The Funds do not intend to make in-kind distributions to the Partners.

In addition, in extreme cases, the Funds may not be able to complete repurchases if the Master Fund is unable to repurchase a portion of the Funds' interests in the Master Fund (held, in the case of the TEI Institutional Fund, through the Offshore Fund) due to the Master Fund's holding of illiquid investments.

CREDIT FACILITY. The Funds and the Master Fund may enter into one or more credit agreements or other similar agreements negotiated on market terms (each, a “Borrowing Transaction”) with one or more banks or other financial institutions which may or may not be affiliated with the Investment Manager (each, a “Financial Institution”) as chosen by the Investment Manager and approved by the Boards of each Fund and the Master Fund, as applicable. To facilitate such Borrowing Transactions, the Funds and the Master Fund may pledge their assets to the Financial Institution. Currently, the Master Fund has established a secured line of credit with Credit Suisse International (“Credit Suisse”) and has agreed to pledge certain assets, to be held in custody by U.S. Bank, as collateral against any drawdown it makes on the line of credit.

Any Borrowing Transaction, including the current agreement with Credit Suisse, will primarily be used to provide the Funds or the Master Fund, as applicable, with liquidity for investments. Borrowing Transactions may be used for additional purposes, including to pay fees and expenses, to make annual income distributions and to satisfy certain repurchase offers in a timely manner to ensure liquidity for the investors.

ABSENCE OF LIABILITY. Subject to any limitations imposed by the federal securities laws, neither the General Partner nor the Investment Manager shall be liable to a Fund or any of the Partners for any loss or damage occasioned by any act or omission in the performance of their respective services as such in the absence of willful misfeasance, bad faith, gross negligence or reckless disregard of their duties.

ANTI-MONEY LAUNDERING. If a Fund, the Investment Manager or any governmental agency believes that a Fund has sold Units to, or is otherwise holding assets of, any person or entity that is acting, directly or indirectly, in violation of U.S., international or other anti-money laundering laws, rules, regulations, treaties or other restrictions, or on behalf of any suspected terrorist or terrorist organization, suspected drug trafficker, or senior foreign political figure(s) suspected of engaging in corruption, a Fund, Investment Manager or such governmental agency may freeze the assets of such person or entity invested in the Fund or suspend the repurchase of Units. A Fund may also be required to, or deem it necessary or advisable to, remit or transfer those assets to a governmental agency, in some cases without prior notice to the investor.

CONFLICTS OF INTEREST. The Investment Manager and its affiliates, as well as many of the Advisers and their respective affiliates, provide investment advisory and other services to clients other than the Funds, the Offshore Fund, the Master Fund, Adviser Funds and Adviser Accounts. In addition, investment professionals associated with the Investment Manager or Advisers may carry on investment activities for their own accounts and the accounts of family members (collectively with other accounts managed by the Investment Manager, Advisers and their affiliates, “Other Accounts”). As a result of the foregoing, the Investment Manager and Advisers will be engaged in substantial activities other than on behalf of the Master Fund, the Offshore Fund and the Funds and may have differing economic shares in respect of such activities and may have conflicts of interest in allocating investment opportunities, and their time, among the Master Fund, the Offshore Fund, the Funds and Other Accounts.

However, it is the policy of the Investment Manager that investment decisions for the Master Fund be made based on a consideration of its investment objective and policies, and other needs and requirements affecting each account that they manage and that investment transactions and opportunities be fairly allocated among their clients, including the Master Fund, the Offshore Fund and the Funds.

BORROWING, USE OF LEVERAGE. The Master Fund may leverage its investments with the Advisers by “borrowing.” In addition, the strategies implemented by the Advisers typically are leveraged. The use of leverage increases both risk and profit potential. The Investment Manager may cause the Master Fund to use various methods to leverage investments, including (i) borrowing, (ii) swap agreements or other derivative instruments, (iii) employing certain Advisers (many of which trade on margin and do not generally need additional capital in order to increase the level of the positions they acquire for it) to trade notional equity in excess of the equity actually available in their accounts or (iv) a combination of these methods. The Investment Manager expects that under normal business conditions the Master Fund will utilize a combination of the leverage methods described above. The Master Fund and the Funds are subject to the 1940 Act requirement that an investment company satisfy an asset coverage requirement of 300% of its indebtedness, including amounts borrowed, measured at the time the investment company incurs the indebtedness (the “Asset Coverage Requirement”). This means that at any given time the value of the Master Fund’s or Funds’ total indebtedness may not exceed one-third the value of its total assets (including such indebtedness). These limits do not apply to the Adviser Funds and, therefore, the Master Fund’s portfolio may be exposed to the risk of highly leveraged investment programs of certain Adviser Funds. The Asset Coverage Requirement will apply to borrowings by Adviser Accounts, as well as to other transactions by Adviser Accounts that can be deemed to result in the creation of a “senior security.”

LEGAL, TAX AND REGULATORY. Legal, tax and regulatory changes could occur that may materially adversely affect the Funds. For example, the regulatory and tax environment for derivative instruments in which Advisers may participate is evolving, and changes in the regulation or taxation of derivative instruments may materially adversely affect the value of derivative instruments held by the Funds and the ability of the Funds to pursue its trading strategies. Similarly, the regulatory environment for leveraged investors

and for hedge funds generally is evolving, and changes in the direct or indirect regulation of leveraged investors or hedge funds may materially adversely affect the ability of the Funds to pursue its investment objective or strategies. Increased regulatory oversight and other legislation or regulation relating to hedge fund managers, hedge funds and funds of hedge funds could result. Such legislation or regulation could pose additional risks and result in material adverse consequences to the Adviser Funds or the Funds and/or limit potential investment strategies that would have otherwise been used by the Advisers or the Funds in order to seek to obtain higher returns. For example, as discussed in “INVESTOR QUALIFICATIONS” in this Prospectus, the SEC has issued notice that it intends to change the definition of “qualified client.”

Certain additional tax risks associated with investments in the Funds are discussed in “TAXES” in this Prospectus and in “Certain Tax Considerations” in the SAI.

SPECIAL RISKS OF FUND OF FUNDS STRUCTURE

NO REGISTRATION. Adviser Funds generally will not be registered as investment companies under the 1940 Act and, therefore, the Master Fund will not be entitled to the various protections afforded by the 1940 Act with respect to its investments in Adviser Funds. Accordingly, the provisions of the 1940 Act, which, among other things, require investment companies to have securities held in custody at all times in segregated accounts and regulate the relationship between the investment company and its asset management, are not applicable to an investment in the Adviser Funds. Unlike registered investment companies such as the Master Fund, Adviser Funds generally are not obligated to disclose the contents of their portfolios. This lack of transparency may make it difficult for the Investment Manager to monitor whether holdings of the Adviser Funds cause the Master Fund to be above specified levels of ownership in certain investment strategies. Although the Master Fund expects to receive information from each Adviser regarding its investment performance on a regular basis, in most cases there is little or no means of independently verifying this information. An Adviser may use proprietary investment strategies that are not fully disclosed to its investors and may involve risks under some market conditions that are not anticipated by the Master Fund. In addition, while many Advisers will register with the SEC and state agencies as a result of developments in certain laws, rules and regulations, some Advisers may still be exempt from registration. In such cases, these Advisers will not be subject to various disclosure requirements and rules that would apply to registered investment advisers.

MULTIPLE LEVELS OF FEES AND EXPENSES. Although in many cases investor access to the Adviser Funds may be limited or unavailable, an investor who meets the conditions imposed by an Adviser Fund may be able to invest directly with the Adviser Fund. By investing in Adviser Funds indirectly through the Funds, the Offshore Fund (for the TEI Institutional Fund only) and the Master Fund, the investor bears asset-based fees and performance-based fees and allocations. Moreover, investors in each Fund bear a proportionate share of the fees and expenses of that Fund and the Master Fund (including organizational and private placement expenses, operating costs, sales charges, brokerage transaction expenses, and administrative fees) and, indirectly, similar expenses of the Adviser Funds. Investors in the TEI Institutional Fund also bear a proportionate share of the fees and expenses of the Offshore Fund (including organizational and private placement expenses, operating costs, sales charges, brokerage transaction expenses, and administrative fees). Thus, investors in the Funds may be subject to higher operating expenses than if he or she invested in an Adviser Fund directly or in a closed-end fund which did not utilize a “fund of funds” structure.

Certain of the Adviser Funds may be subject to a performance-based fee or allocation, irrespective of the performance of other Adviser Funds and the Fund generally. Accordingly, an Adviser to an Adviser Fund with positive performance may receive performance-based compensation from the Adviser Fund, and thus indirectly from the Funds and their Partners, even if a Fund’s overall performance is negative. Generally, fees payable to Advisers of the Adviser Funds will range from 1% to 2% (annualized) of the average NAV of each Fund’s investment. In addition, certain Advisers charge an incentive allocation or fee generally ranging from 10% to 35% of an Adviser Fund’s net profits, although it is possible that such ranges may be exceeded for certain Advisers. The performance-based compensation received by an Adviser also may create an incentive for that Adviser to make investments that are riskier or more speculative than those that it might have made in the absence of the performance-based allocation. Such compensation may be based on calculations of realized and unrealized gains made by the Adviser without independent oversight.

ADVISERS INVEST INDEPENDENTLY. The Advisers generally invest wholly independently of one another and may at times hold economically offsetting positions. To the extent that the Advisers do, in fact, hold such positions, the Master Fund’s portfolio, considered as a whole, may not achieve any gain or loss despite incurring fees and expenses in connection with such positions. Furthermore, it is possible that from time to time various Advisers selected by the Investment Manager may be competing with each other for the same positions in one or more markets. In any such situations, a Fund could indirectly incur certain transaction costs without accomplishing any net investment result.

LIQUIDITY CONSTRAINTS OF ADVISER FUNDS. Since the Master Fund may make additional investments in or affect withdrawals from an Adviser Fund only at certain times pursuant to limitations set forth in the governing documents of the Adviser Fund, a Fund from time to time may have to invest a greater portion of its assets temporarily in money market securities than it

otherwise might wish to invest and may have to borrow money to repurchase Units. The redemption or withdrawal provisions regarding the Adviser Funds vary from fund to fund. Therefore, the Master Fund may not be able to withdraw its investment in an Adviser Fund promptly after it has made a decision to do so. Some Adviser Funds may impose early redemption fees while others may not. This may adversely affect a Fund's investment return or increase a Fund's expenses and limit the Fund's ability to make offers to repurchase Units from Partners.

Adviser Funds may be permitted to redeem their interests in-kind. Thus, upon the Master Fund's withdrawal of all or a portion of its interest in an Adviser Fund, it may receive securities that are illiquid or difficult to value. See "CALCULATION OF NET ASSET VALUE." In these circumstances, the Investment Manager would seek to dispose of these securities in a manner that is in the best interests of each Fund and does not intend to distribute securities to Partners.

Limitations on the Master Fund's ability to withdraw its assets from Adviser Funds and Adviser Accounts may, as a result, limit each Fund's ability to repurchase Units. For example, many Adviser Funds and Adviser Accounts may impose lock-up periods prior to allowing withdrawals, which can be two years or longer from the date of the Master Fund's investment. After expiration of the lock-up period, withdrawals may be permitted only on a limited basis, such as semi-annually or annually. Because the primary source of funds to repurchase Units will be withdrawals from Adviser Funds and Adviser Accounts, the application of these lock-ups and other withdrawal limitations, such as gates or suspension provisions, will significantly limit each Fund's ability to tender its Units for repurchase.

SEGREGATED ACCOUNT ALLOCATIONS. Subject to applicable law, the Master Fund may on occasion allocate its assets to an Adviser by retaining the Adviser to manage an Adviser Account for the Master Fund, rather than invest in an Adviser Fund. It is possible, given the leverage at which certain of the Advisers will trade, that the Master Fund could lose more in an Adviser Account that is managed by a particular Adviser than the Master Fund has allocated to such Adviser to invest. This risk may be avoided if the Master Fund, instead of retaining an Adviser to manage a separate account comprised of a designated portion of each Fund's assets, creates a separate investment vehicle for which an Adviser will serve as general partner and in which the Master Fund will be the sole limited partner. Use of this structure, however, involves various expenses, and there is no requirement that separate investment vehicles be created for Adviser Accounts. Adviser Accounts will be subject to the investment policies and restrictions of the Master Fund, as well as the provisions of the 1940 Act and the rules thereunder (including, without limitation, the approval of the Adviser in accordance with the 1940 Act).

VALUATION OF ADVISER FUNDS. The valuation of the Master Fund's investments in Adviser Funds is ordinarily determined based upon valuations calculated by UMB Fund Services, Inc. (the "Administrator"), based on information provided by the Advisers or their respective fund administrator. Although the Investment Manager reviews the valuation procedures used by all Advisers, neither the Investment Manager nor the Administrator can confirm or review the accuracy of valuations provided by Advisers or their administrators. An Adviser may face a conflict of interest in valuing such securities since their values will affect the Adviser's compensation.

If an Adviser's valuations are consistently delayed or inaccurate, the Investment Manager generally will consider whether the Adviser Fund continues to be an appropriate investment for the Master Fund. The Master Fund may be unable to sell interests in such an Adviser Fund quickly, and could therefore be obligated to continue to hold such interests for an extended period of time. In such a case, such interests would continue to be valued without the benefit of the Adviser's valuations, and the Investment Manager may determine to discount the value of the interests or value them at zero, if deemed to be the fair value of such holding. Revisions to a Fund's gain and loss calculations will be an ongoing process, and no appreciation or depreciation figure can be considered final until the annual audits of Adviser Funds are completed.

TURNOVER. The Master Fund's activities involve investment in the Adviser Funds, which may invest on the basis of short-term market considerations. The turnover rate within the Adviser Funds may be significant, potentially involving negative tax implications and substantial brokerage commissions, and fees. The Master Fund will have no control over this turnover. It is anticipated that the Master Fund's income and gains, if any, will be primarily derived from ordinary income. In addition, the withdrawal of the Master Fund from an Adviser Fund could involve expenses to the Master Fund under the terms of the Master Fund's investment.

INDEMNIFICATION OF ADVISER FUNDS. The Advisers often have broad indemnification rights and limitations on liability. The Master Fund may also agree to indemnify certain of the Adviser Funds and their Advisers from any liability, damage, cost, or expense arising out of, among other things, certain acts or omissions relating to the offer or sale of the shares of the Adviser Funds.

INVESTMENTS IN NON-VOTING SECURITIES. In order to avoid becoming subject to certain 1940 Act prohibitions with respect to affiliated transactions, the Master Fund intends to own less than 5% of the voting securities of each Adviser Fund. This limitation on owning voting securities is intended to ensure that an Adviser Fund is not deemed an "affiliated person" of the Master Fund for purposes of the 1940 Act, which may, among other things, potentially impose limits on transactions with the Adviser Funds,

both by the Master Fund and other clients of the Investment Manager. To limit its voting interest in certain Adviser Funds, the Master Fund may enter into contractual arrangements under which the Master Fund irrevocably waives its rights (if any) to vote its interests in an Adviser Fund (for example, to facilitate investments in small Adviser Funds determined attractive by the Investment Manager). Other accounts managed by the Investment Manager may also waive their voting rights in a particular Adviser Fund. The Investment Manager will decide whether to waive such voting rights and, in making these decisions, will consider the amounts (if any) invested by the Master Fund and its other clients in the particular Adviser Fund. No rights would be waived or contractually limited for an Adviser Fund that does not provide an ongoing ability for follow-on investment or withdrawal rights, such as an Adviser Fund having a single initial funding, closing or commitment, after which no new investment typically would occur. These voting waiver arrangements may increase the ability of the Master Fund and other clients of the Investment Manager to invest in certain Adviser Funds. However, to the extent the Master Fund contractually forgoes the right to vote the securities of an Adviser Fund, the Master Fund will not be able to vote on matters that require the approval of the interest holders of the Adviser Fund, including matters adverse to the Master Fund's and the Funds' interests.

Although the Master Fund may hold non-voting interests, the 1940 Act and the rules and regulations thereunder may nevertheless require the Master Fund to limit its position in any one Adviser Fund in accordance with applicable regulatory requirements, as may be determined by the Master Fund in consultation with counsel. These restrictions could change from time to time as applicable laws, rules or interpretations thereof are modified. There are also other statutory tests of affiliation (such as on the basis of control), and, therefore, the prohibitions of the 1940 Act with respect to affiliated transactions could apply in some situations where the Master Fund owns less than 5% of the voting securities of an Adviser Fund. In these circumstances, transactions between the Master Fund and an Adviser Fund may, among other things, potentially be subject to the prohibitions of Section 17 of the 1940 Act notwithstanding that the Master Fund has entered into a voting waiver arrangement.

CONTROL OVER ADVISERS. The Master Fund will invest in Adviser Funds that the Investment Manager believes will generally, and in the aggregate, be managed in a manner consistent with the Funds' investment objective and strategy. The Investment Manager does not and will not control the Advisers and there can be no assurances that an Adviser will manage its Adviser Funds in a manner consistent with the Funds' investment objective.

TEI INSTITUTIONAL FUND ONLY

INVESTMENT IN THE OFFSHORE FUND. The Offshore Fund is not registered under the 1940 Act, and is not subject to the investor protections offered thereby. The TEI Institutional Fund, as an investor in the Offshore Fund, will not have the protections offered to an investor in registered investment companies. However, the TEI Institutional Fund will control the Offshore Fund.

CHANGES IN UNITED STATES AND/OR CAYMAN ISLANDS LAW. If there are changes in the laws of the United States and/or the Cayman Islands, under which the TEI Institutional Fund and Offshore Fund, respectively, are organized, so as to result in the inability of the TEI Institutional Fund and/or the Offshore Fund to operate as set forth in this Prospectus, there may be substantial effect on the Partners. For example, if Cayman Islands law changes such that the Offshore Fund must conduct business operations within the Cayman Islands, or pay taxes, investors in the TEI Institutional Fund would likely suffer decreased investment returns. If Cayman Islands law, which limits the duration of a limited duration company to 30 years, were to change such that, at the end of 30 years, the TEI Institutional Fund could not replace the Offshore Fund with another identical limited duration company, the structure of the TEI Institutional Fund would be affected, potentially adversely. Such changes could also result in the inability of the TEI Institutional Fund to operate on a going-forward basis, resulting in the TEI Institutional Fund being liquidated.

REGULATORY CHANGE. The TEI Institutional Fund's structure is consistent with a position taken by the staff of the SEC with respect to a non-affiliated investment company allowing a structure whereby the TEI Institutional Fund will invest in the Master Fund via the Offshore Fund. To the extent that the views of the SEC staff, which do not represent the views of the SEC itself, were to change, the structure of the TEI Institutional Fund's investment in the Master Fund could be adversely affected, possibly affecting the treatment of UBTI.

Subject to obtaining any required regulatory approval, the TEI Institutional Fund may determine to invest its assets directly in non-U.S. investment funds that are classified as passive foreign investment companies ("PFICs") for U.S. federal income tax purposes. The TEI Institutional Fund may pursue such an investment approach only if it believes that it could avoid generating UBTI by making such investments and the approach is approved by the TEI Institutional Fund's Board. The TEI Institutional Fund will provide Partners with at least 90 days' notice before implementing such a change.

On January 5, 2011, Congressman Doggett introduced in the House of Representatives the "International Tax Competitiveness Act of 2011." If enacted as proposed, the International Tax Competitiveness Act of 2011 will adversely affect the TEI Fund. One provision contained in the bill would treat as a U.S. corporation any foreign corporation the assets of which consist primarily of assets being managed on behalf of investors, if the decisions about how to invest the assets are made in the United States. That would

probably cause the Offshore Fund to become subject to U.S. federal corporate income tax on its worldwide income. If such a provision is enacted, the TEI Fund will probably cease to be a tax-efficient vehicle for its shareholders. As proposed, however, the provision would be effective only for taxable years beginning on or after two years from the date of enactment, so there would be some time available initially in which the structure of the Fund might be changed in response to the change in law. That provision was also part of the March 2, 2009, “Stop Tax Haven Abuse Act” introduced by Senator Levin and Congressman Doggett in the U.S. Senate and House of Representatives. The Stop Tax Haven Abuse Act was co-sponsored by three other Senators and fifty-nine other Congressmen, including thirteen members of the House Ways and Means Committee – the committee with initial jurisdiction over Federal tax legislation, however the International Tax Competitiveness Act of 2011 has no co-sponsors. For more information regarding the tax considerations applicable to an investment in the TEI Institutional Fund, see “TAXES – TEI INSTITUTIONAL FUND.”

INVESTMENT-RELATED RISKS

GENERAL INVESTMENT-RELATED RISKS

GENERAL ECONOMIC AND MARKET CONDITIONS. The success of a Fund’s investment program may be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, and national and international political circumstances. These factors may affect the level and volatility of securities prices and the liquidity of investments held by Master Fund in the Adviser Funds and Adviser Accounts and, thus, a Fund’s investments. Unexpected volatility or illiquidity could impair a Fund’s profitability or result in losses.

HIGHLY VOLATILE MARKETS. Price movements of forwards, futures and other derivative contracts in which an Adviser Fund’s or Adviser Account’s assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The prices of commodities contracts and all derivative instruments, including futures and options, can be highly volatile. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies, financial instruments, futures and options. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. Adviser Funds and Adviser Accounts are also subject to the risk of the failure of any exchanges on which their positions trade or of the clearinghouses for those exchanges.

NATURAL RESOURCE AND PRECIOUS METAL INVESTMENTS. Adviser Funds and Adviser Accounts may make investments in natural resources and precious metals, and thus may be susceptible to economic, business or other developments that affect those industries. Natural resources historically have been subject to substantial price fluctuations over short periods of time. Their prices are affected by various factors, including economic conditions, political events, natural disasters, exploration and development success or failure, and technological changes. In addition, certain natural resources are geographically concentrated, and events in those parts of the world in which such concentration exists may affect their values. The price of gold and other precious metals are affected by unpredictable international monetary and political policies such as currency devaluations or revaluations, economic and social conditions within a country, trade imbalances, or trade or currency restrictions between countries. The markets for those industries therefore are volatile at times, and there may be sharp fluctuations in prices even during periods of rising prices.

ETFs. ETFs are listed and traded on securities exchanges and in over-the-counter markets, and the purchase and sale of these shares involve transaction fees and commissions. In addition, shares of an ETF are issued in “creation units” and are not redeemable individually except upon termination of the ETF. To redeem shares of an ETF held by the Master Fund, the Master Fund must accumulate enough shares of an ETF to reconstitute a creation unit. The liquidity of such Adviser Funds therefore, will depend upon the existence of a secondary market. Also, even though the market price of an ETF is derived from the securities it owns, such price at any given time may be at, below or above the ETF’s NAV.

RISKS OF SECURITIES ACTIVITIES OF THE ADVISERS. The Advisers will invest and trade in a variety of different securities, and utilize a variety of investment instruments and techniques. Each security and each instrument and technique involves the risk of loss of capital. While the Investment Manager will attempt to moderate these risks, there can be no assurance that the Master Fund’s investment activities will be successful or that the Partners will not suffer losses. See “RISKS OF SECURITIES ACTIVITIES OF THE ADVISERS” and “SPECIAL INVESTMENT INSTRUMENTS AND TECHNIQUES” in the SAI for further information.

DERIVATIVES. Adviser Funds and Adviser Accounts may engage in transactions involving options, futures and other derivative financial instruments. Derivatives can be volatile and involve various types and degrees of risk, depending upon the characteristics of the particular derivative and the portfolio as a whole. Derivatives permit Adviser Funds and Adviser Accounts to increase or decrease the level of risk, or change the character of the risk, to which their portfolios are exposed in much the same way as they can increase or decrease the level of risk, or change the character of the risk, of their portfolios by making investments in specific securities.

Special risks may apply to instruments that are invested in by Adviser Funds or Adviser Accounts in the future that cannot be determined at this time or until such instruments are developed or invested in by Adviser Funds or Adviser Accounts. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk.

Derivatives may entail investment exposures that are greater than their cost would suggest, meaning that a small investment in derivatives could have a large potential impact on an Adviser Fund's or Adviser Account's performance.

If an Adviser Fund or Adviser Account invests in derivatives at inopportune times or judges market conditions incorrectly, such investments may lower the Adviser Fund's or Adviser Account's return or result in a loss. An Adviser Fund or Adviser Account also could experience losses if its derivatives were poorly correlated with its other investments, or if the Adviser Fund or Adviser Account were unable to liquidate its position because of an illiquid secondary market. The market for many derivatives is, or suddenly can become, illiquid. Changes in liquidity may result in significant, rapid and unpredictable changes in the prices for derivatives.

COUNTERPARTY CREDIT RISK. Many of the markets in which the Adviser Funds or Adviser Accounts effect their transactions are "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. To the extent an Adviser Fund or Adviser Account invests in swaps, derivative or synthetic instruments, or other over the counter transactions, on these markets, it is assuming a credit risk with regard to parties with whom it trades and may also bear 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 an Adviser Fund or Adviser Account 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 Adviser Fund or Adviser Account to suffer a loss. Such counterparty risk is accentuated in the case of contracts with longer maturities where events may intervene to prevent settlement, or where an Adviser Fund or Adviser Account has concentrated its transactions with a single or small group of counterparties. Adviser Funds and Adviser Accounts are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. However, the Investment Manager, with the intent to diversify, intends to attempt to monitor counterparty credit exposure of Adviser Funds and Adviser Accounts. The ability of Adviser Funds and Adviser Accounts 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 a Fund.

INVESTMENT STRATEGY-SPECIFIC INVESTMENT-RELATED RISKS

In addition to the risks generally described in this Prospectus and the SAI, the following are some of the specific risks of each investment strategy:

OPPORTUNISTIC EQUITY

A short sale involves the theoretically unlimited risk of an increase in the market price of the security that would result in a theoretically unlimited loss. Short selling relies on, among other things, fundamental analysis, in-depth knowledge of accounting, an understanding of public market pricing and/or industry research. There can be no assurance that any hedging techniques employed by an Adviser will be successful or that the hedging employed by the Adviser will not have the negative effect of lowering overall returns, or creating losses, in the portfolio or with respect to the applicable position.

The main risk of investing in real estate, equity securities issued by real estate companies and in REITs is that the value of such investments might decline as a result of the performance of individual stocks, a decline in the stock market in general or a general decline in real estate markets. Other risks include: extended vacancies of properties, increased competition or overbuilding, increases in property taxes and operating expenses, changes in zoning laws, losses due to costs resulting from the clean-up of environmental problems, liability to third parties for damages resulting from environmental problems, casualty or condemnation losses, limitations on rents, changes in neighborhood values and the appeal of properties to tenants, and changes in interest rates. REITs prices also may drop because of the failure of borrowers to pay their loans, a dividend cut, a disruption to the real estate investment sales market, changes in federal or state taxation policies affecting REITs, and poor management.

Adviser Funds and Adviser Accounts may invest in securities of energy and natural resources companies, which means that their performances will be susceptible to the economic, business or other developments that affect those industries. For example, the value of such investments may be impacted by energy prices, supply and demand fluctuations, energy conservation, tax and other regulatory

policies of governments, and global events including instability in the Middle East or war. Prices of gold and other precious metals can be influenced by a variety of global economic, financial and political factors and may fluctuate substantially over short periods of time, and such investments may be more volatile than other types of investments. At times, the performance of these companies may lag the performance of the broader stock market. In addition, Adviser Funds and Adviser Accounts may, but the Funds do not expect that they would, invest in energy and natural resources directly.

Adviser Funds may invest in securities of companies in the health care sector. Many health care-related companies are smaller and less seasoned than companies in other sectors and may be strongly affected by scientific or technological developments. Additionally, many health care-related companies offer products and services that are subject to governmental regulation and may be adversely affected by changes in governmental policies or laws, which may impact the returns of Adviser Funds investing in this sector.

Adviser Funds may invest in the financial services sector. Financial, business and economic factors, including market conditions, interest rates, economic, regulatory and financial developments, and are likely to have a substantial impact on Adviser Funds' holdings. The financial services sector is subject to extensive government regulation, which can limit the amounts and types of loans and other financial commitments that companies can make, the interest rates and fees that they can charge and the manner in which they distribute their products. Profitability can be largely dependent on the availability and cost of capital and can fluctuate significantly when interest rates change. Credit losses resulting from financial difficulties of borrowers can negatively affect lending institutions. Insurance companies can be subject to severe price competition. The financial services sector generally is undergoing rapid change.

Adviser Funds may invest in the technology sector. Technology companies may produce or use products or services that prove commercially unsuccessful, become obsolete or become adversely impacted by government regulation. Competitive pressures in the technology sector, and Adviser Fund's concentration in technology company securities, may subject it to more volatile price movements than a more diversified securities portfolio.

ENHANCED FIXED INCOME

High Yield Debt Advisers may deal in and with restricted or marketable securities and a significant portion of a High Yield Debt Adviser's portfolio may be invested in restricted securities that may not be registered and for which a market may not be readily available (i.e., not freely traded).

High Yield Debt securities generally trade at discounts (sometimes substantial discounts) to par value because many investors are either prohibited from, or willingly avoid, investing due to the complexity of determining the securities' true risk/reward profile. Accordingly, High Yield Debt Adviser Funds typically experience significantly more volatility and risk than traditional fixed income Adviser Funds. To mitigate some of this risk, a High Yield Debt Adviser may use certain hedging tools, such as "shorting" securities in other portions of the capital structure (e.g., being "long" the high yield debt position and "short" the issuer's common stock) in order to mitigate the risk associated with an investment in the company (which may well be highly leveraged). There can be no assurance that any such hedging techniques will be successful or that the hedging employed by the Adviser will not have the negative effect of lowering overall returns, or creating losses, in the portfolio or with respect to the applicable position.

A significant portion of a Distressed Securities Adviser's portfolio may be invested in restricted securities that may not be registered and for which a market may not be readily available, and therefore a significant portion of the portfolio may not be freely traded. Investments may involve both U.S. and non-U.S. entities and may utilize leverage. In addition, a Distressed Securities Adviser may use certain hedging tools, such as "shorting" securities in other portions of the capital structure (e.g., being "long" the distressed securities position and "short" the issuer's common stock) in order to mitigate the risk associated with an investment in an otherwise "troubled" company. There can be no assurance that any such hedging techniques will be successful or that the hedging employed by the Adviser will not have the negative effect of lowering overall returns, or creating losses, in the portfolio or with respect to the applicable position. Distressed Securities Adviser Funds typically experience significantly more volatility and risk than traditional fixed income Adviser Funds.

Given liquidity issues, currency risk, credit risk, interest rate risk and geo-political risks, Global Debt Adviser Funds typically experience significantly more volatility and risk than traditional fixed income Adviser Funds. To mitigate some of this risk, a Global Debt Adviser may use certain hedging tools, such as "shorting" securities in other portions of the capital structure (e.g., being "long" the global debt position and "short" the issuer's common stock) or buying protection for a decline in the native currency or the U.S. dollar in order to mitigate the risk associated with an investment in a particular Global Debt security. There can be no assurance that any such hedging techniques will be successful or that the hedging employed by the Adviser will not have the negative effect of lowering overall returns, or creating losses, in the portfolio or with respect to the applicable position. Given the markets in which it invests, a significant portion of a Global Debt Adviser's portfolio may be invested in restricted securities that may not be registered

and for which a market may not be readily available, and therefore a significant portion of the portfolio may not be freely traded. Further, an investment in bonds issued by foreign governments or corporations may carry significant geo-political risks, legal risks, currency risks (significant devaluations) and liquidity risks (lack of developed trading markets), among other things.

The Structured Credit strategy involves risks of investing in a CDO. The risks of an investment in a CDO depends largely on the type of the collateral securities and the class of the CDO in which an Adviser Fund invests. Normally, CBOs, CLOs and other CDOs are privately offered and sold, and thus are not registered under the securities laws. As a result, investments in CDOs may be characterized by an Adviser Fund as illiquid securities. However, an active dealer market may exist for CDOs, allowing a CDO to qualify for Rule 144A transactions. In addition to the normal risks associated with fixed-income securities and asset-backed securities, CDOs carry additional risks including, but not limited to: (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments; (ii) the quality of the collateral may decline in value or default; (iii) an Adviser Fund may invest in tranches of CDOs that are subordinate to other tranches; (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer or unexpected investment results; and (v) the CDO's manager may perform poorly or default.

Although certain CDOs may receive credit enhancement in the form of a senior-subordinate structure, over-collateralization or bond insurance, such enhancement may not always be present and may fail to protect an Adviser Fund against the risk of loss on default of the collateral. CDOs may use derivatives contracts to create "synthetic" exposure to assets rather than holding such assets directly, which entails the risks of derivative instruments.

Mortgage-backed securities may have significantly greater price and yield volatility than is the case with traditional fixed-income securities. As a result, if an Adviser Fund purchases mortgage-backed securities at a premium, a faster than expected prepayment rate will reduce both the market value and the yield to maturity from those which were anticipated. A prepayment rate that is slower than expected will have the opposite effect of increasing yield to maturity and market value. Conversely, if an Adviser Fund purchases mortgage-backed securities at a discount, faster than expected prepayments will increase, while slower than expected prepayments will reduce yield to maturity and market values. To the extent that an Adviser Fund invests in mortgage-backed securities, it may seek to manage these potential risks by investing in a variety of mortgage-backed securities and by using certain hedging techniques.

In addition, asset-backed securities present certain additional risks because asset-backed securities generally do not have the benefit of a security interest in collateral that is comparable to mortgage assets. Credit card receivables are generally unsecured and the debtors on such receivables are entitled to the protection of a number of state and federal consumer credit laws, many of which give such debtors the right to set-off certain amounts owed on the credit cards, thereby reducing the balance due. Automobile receivables generally are secured, but by automobiles rather than residential real property. Most issuers of automobile receivables permit the loan servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the asset-backed securities. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the automobile receivables may not have a proper security interest in the underlying automobiles. Therefore, if the issuer of an asset-backed security defaults on its payment obligations, there is the possibility that, in some cases, an Adviser Fund will be unable to possess and sell the underlying collateral and that the Adviser Fund's recoveries on repossessed collateral may not be available to support payments on the securities.

ABSOLUTE RETURN

Event Driven Arbitrage is research intensive and requires continual review of announced and anticipated events. In addition, the analysis required differs significantly from conventional securities analysis, and many investors may be ill-equipped to analyze certain types of situations or respond to them in a timely manner. There can be no assurance that any hedging techniques employed by an Adviser will be successful or that the hedging employed by the Adviser will not have the negative effect of lowering overall returns, or creating losses, in the portfolio or with respect to the applicable position.

In regards to Convertible Arbitrage, the Investment Manager believes that it necessitates rigorous analysis to determine the portion of the value of the convertible security that is composed of equity-like elements and the portion that is composed of debt-like elements.

Merger Arbitrage is more cyclical than many other strategies, since it requires a supply of corporate mergers and acquisitions to deploy capital. For example, from the middle part of 2000 to the middle part of 2003, activity within this strategy was particularly limited. There can be no assurance that any such hedging techniques will be successful or that the hedging employed by the Adviser will not have the negative effect of lowering overall returns, or creating losses, in the portfolio or with respect to the applicable position.

Acquisitions sometimes fail because the U.S. government, European Union or some other governmental entity does not approve of aspects of a transaction due to anti-trust concerns, tax reasons, subsequent disagreements between the Acquiror or Target as to management transition or corporate governance matters or changing market conditions. Accordingly, the Investment Manager believes that key factors in the successful implementation of merger arbitrage are expertise in regulatory areas such as antitrust, tax, and general corporate law; corporate governance; fundamental analysis and valuation; the ability to assess the probability of a successful outcome; and the ability to access superior market intelligence.

The principal risk of Fixed Income Arbitrage is rising interest rates, which often result in a greater decline in the value of the “long” position than in the “short” position. In such a case, the Adviser will either have to provide additional collateral to the investment bank lender or close the position at a loss. There can be no assurance that any hedging techniques employed by an Adviser will be successful or that the hedging employed by the Adviser will not have the negative effect of lowering overall returns, or creating losses, in the portfolio or with respect to the applicable position.

Volatility Arbitrage often relies on extensive quantitative modeling, volatility estimation and proprietary in-house trading models. There can be no assurance that any hedging techniques employed by an Adviser will be successful or that the hedging employed by the Adviser will not have the negative effect of lowering overall returns, or creating losses, in the portfolio or with respect to the applicable position.

Statistical Arbitrage can involve large transaction costs because of the need to simultaneously buy and sell many different stocks and futures, and so leverage is often applied. In addition, sophisticated computer programs are typically needed to keep track of the large number of stocks and futures involved. While Statistical Arbitrage typically relies on quantitative, computer-driven models, some subjective investment decisions are required of the Adviser when selecting securities to be “long” and “short.” The Investment Manager believes that the key requirement to profit in this strategy is strong fundamental company and industry analysis. An Adviser who is able to more clearly discern closely related pairs of securities will be more likely to outperform trading the strategy over time. There can be no assurance that any such hedging techniques will be successful or that the hedging employed by the Adviser will not have the negative effect of lowering overall returns, or creating losses, in the portfolio or with respect to the applicable position.

TACTICAL TRADING

The Global Macro/Managed Futures strategy involves positions in the cash, currency, futures and forward markets. Foreign currency transactions may involve, for example, the purchase of foreign currencies for U.S. dollars or the maintenance of short positions in foreign currencies. Foreign currency transactions may involve an Adviser Fund or Adviser Account agreeing to exchange an amount of a currency it does not currently own for another currency at a future date. An Adviser Fund or Adviser Account would typically engage in such a transaction in anticipation of a decline in the value of the currency it sells relative to the currency that the Adviser Fund or Adviser Account has contracted to receive in the exchange. An Adviser’s success in these transactions will depend principally on its ability to predict accurately the future exchange rates between foreign currencies and the U.S. dollar.

PRIVATE INVESTMENTS

Securities issued by private partnerships investing in private equity, real estate, energy and natural resources and other investments may be more illiquid than securities issued by other Adviser Funds generally, because the partnerships’ underlying investments may tend to be less liquid than other types of investments. The eventual success or failure of Private Equity investing ultimately hinges on the ability of Advisers to attract and develop a steady flow of quality investment opportunities to analyze.

Generally, little public information exists about privately held companies, and Advisers will be required to rely on the ability of their management teams to obtain adequate information to evaluate the potential risks and returns involved in investing in these companies. These companies and their financial information will not be subject to the Sarbanes-Oxley Act and other rules that govern public companies. If the Advisers are unable to uncover all material information about these companies, they may not make a fully informed investment decision, and may lose money on these investments.

Substantially all of the securities of privately held companies will be subject to legal and other restrictions on resale or will otherwise be less liquid than publicly traded securities. See the “RISKS OF SECURITIES ACTIVITIES OF THE ADVISERS – ILLIQUID PORTFOLIO INVESTMENTS” in the Funds’ SAI for a detailed discussion of risks of investing in illiquid securities.

Additionally, privately held companies frequently have less diverse product lines and smaller market presence than larger competitors. All of these factors could affect the Funds’ investment returns.

* * *

LIMITS OF RISK DISCLOSURES. The above discussions of the various risks, and the related discussion of risks in the SAI, that are associated with the Funds, the Master Fund, the Offshore Fund (with the TEI Institutional Fund only), the Units and the Adviser Funds are not, and are not intended to be, a complete enumeration or explanation of the risks involved in an investment in each Fund. Prospective investors should read this entire Prospectus and the applicable Fund's Limited Partnership Agreement and consult with their own advisers before deciding whether to invest in a Fund. In addition, as a Fund's investment program changes or develops over time, an investment in a Fund may be subject to risk factors not currently contemplated or described in this Prospectus.

INVESTOR QUALIFICATIONS

Each prospective investor in a Fund will be required to certify that it is a U.S. person for federal income tax purposes and a "qualified client" within the meaning of Rule 205-3 under the Advisers Act. A "qualified client" is, among other categories, (i) a natural person or company (other than an investment company) that represents that it has a net worth (together, in the case of a natural person, with assets held jointly with a spouse) of more than \$2,000,000; (ii) a person who has at least \$1,000,000 under the Investment Manager's or its affiliates' management, including any amount invested in a Fund; (iii) a person who is a "qualified purchaser" as defined by the 1940 Act and the rules thereunder; and (iv) certain knowledgeable employees who participate in the Investment Manager's investment activities. Investors who meet such qualifications are referred to in this Prospectus as "Eligible Investors." The qualifications required to invest in a Fund will appear in an investor application that must be completed by each prospective investor. Existing Partners who wish to request to purchase additional Units will be required to qualify as "Eligible Investors" and to complete an additional investor application prior to the additional purchase.

The SEC has issued notice that it intends to exclude the value of a client's primary residence from the net worth test of Rule 205-3 under the Advisers Act. Should a revised definition of "qualified client" under Rule 205-3 take effect, new investors in the Funds will be required to meet such definition. If the rule is enacted as currently proposed, existing Partners may remain invested in the Funds regardless of whether they satisfy the new definition and may purchase additional Units so long as they qualify as and continue to qualify as "Eligible Investors" under the previous definition. The SEC has not issued a final rule on this proposal and, accordingly, the proposed rule is subject to revision.

An investment in the Core Alternatives Institutional Fund is not appropriate for certain types of tax-exempt entities, including CRUTs. Tax-exempt entities should consult with their tax advisers prior to making an investment in the Funds.

TENDER OFFERS/OFFERS TO REPURCHASE

In no event will more than 20% of the Units of a Fund be repurchased per quarter. For purposes of clarification, it should be noted that there is no guarantee that a Fund will offer to repurchase 20% (or any other percentage) of the Units of a Fund in any given quarter. Each Fund is structured as a closed-end fund, which means that the Partners will not have the right to redeem their Units on a daily basis. In addition, the Funds do not expect any trading market to develop for the Units. As a result, if investors decide to invest in a Fund, they will have very limited opportunity to sell their Units.

At the discretion of the Board and provided that it is in the best interests of the Funds and their Partners to do so, the Funds intends to provide a limited degree of liquidity to the Partners by conducting repurchase offers generally quarterly with a Valuation Date (as defined below) on or about March 31, June 30, September 30 and December 31 of each year.

The Board will consider the following factors, among others, in making its determination for each Fund separately to make each repurchase offer:

- the recommendation of the Investment Manager and/or the General Partner;
- whether any Partners have requested to tender Units or portions thereof to the Fund;
- the liquidity of a Fund's assets (including fees and costs associated with withdrawing from investments);
- the investment plans and working capital requirements of the Fund;
- the relative economies of scale with respect to the size of the Fund;
- the history of a Fund in repurchasing Units or portions thereof;
- the availability of information as to the value of a Fund's assets;

- the economic condition of the securities markets and the economy generally as well as political, national or international developments or current affairs; and
- the anticipated tax consequences to a Fund of any proposed repurchases of Units or portions thereof.

When a repurchase offer commences, the affected Fund will send a notification of the offer, in advance of such offer, to the Partners via their financial intermediaries. The notification will specify, among other things:

- the percentage of Units that the Fund is offering to repurchase;
- the date on which a Partner's repurchase request is due;
- the Valuation Date (as defined below) applicable to the repurchase;
- the date by which the Partners will receive the proceeds from their Unit sales; and
- the most current NAV of the Units that is available on the date of the notification, although such NAV may not be the NAV at which repurchases are made.

In each repurchase offer, each Fund intends to repurchase a percentage of its Units at its NAV, but in no event to exceed the repurchase of more than 20% of the Units per quarter. A Partner that participates in a repurchase offer with a Valuation Date (as defined below) occurring prior to the end of the 12th month of its admission to that Fund may be subject to a penalty payable to the Fund equal to 5% of the amount requested to be repurchased, to be netted against withdrawal proceeds. The minimum value of a repurchase is \$50,000, subject to the discretion of the General Partner to allow otherwise.

Units will be repurchased at their NAV determined as of approximately March 31, June 30, September 30 and December 31, as applicable (each such date, a "Valuation Date"). Partners tendering Units for repurchase will be asked to give written notice of their intent to do so by the date specified in the notice describing the terms of the applicable repurchase offer, which date will be approximately 65 days prior to the date of repurchase by each Fund. Partners who tender may not have all of the tendered Units repurchased by a Fund. If over-subscriptions occur, a Fund may elect to repurchase less than the full amount that a Partner requests to be repurchased. In such an event, the Funds may repurchase only a pro rata portion of the amount tendered by each Partner.

The decision to offer to repurchase Units is in the complete and absolute discretion of the applicable Fund's Board, which may, under certain circumstances, elect not to offer to repurchase Units. In certain circumstances, the General Partner may require a Partner to tender its Units.

A Partner who tenders for repurchase only a portion of his Units in a Fund will be required to maintain a minimum account balance of \$50,000. If a Partner tenders a portion of his Units and the repurchase of that portion would cause the Partner's account balance to fall below this required minimum (except as a result of proration), each Fund reserves the right to reduce the portion of the Units to be purchased from the Partner so that the required minimum balance is maintained. Such minimum capital account balance requirement may also be waived by the General Partner in its sole discretion, subject to applicable federal securities laws.

TENDER/REPURCHASE PROCEDURES

Due to liquidity restraints associated with the Master Fund's investments in Adviser Funds and the fact that the Funds will have to effect withdrawals from the Master Fund (for the TEI Institutional Fund, the withdrawal from the Master Fund will be via the Offshore Fund) to pay for Units being repurchased, it is presently expected that, under the procedures applicable to the repurchase of Units, Units will be valued as of the applicable Valuation Date. Each Fund will generally pay the value of the Units repurchased (or as discussed below, 95% of such value if all Units owned by a Partner are repurchased) approximately 90 days after the Valuation Date. This amount will be subject to adjustment within 45 days after completion of the annual audit of each Fund's financial statements for the fiscal year in which the repurchase is effected. Units may be repurchased prior to Adviser Fund audits. To mitigate any effects of this, if all Units owned by a Partner are repurchased, the Partner will receive an initial payment equal to 95% of the estimated value of the Units (after adjusting for fees, expenses, reserves or other allocations or redemption charges) within approximately 90 days after the Valuation Date, subject to audit adjustment, and the balance due will be determined and paid within 45 days after completion of each Fund's annual audit.

Under these procedures, Partners will have to decide whether to tender their Units for repurchase without the benefit of having current information regarding the value of the Units as of the Valuation Date. The Partner may inquire of a Fund, at the telephone number within this Prospectus, or the Administrator, at the telephone number accompanying an offer to purchase relating to a tender

offer, as to the value of the Units last determined. In addition, there will be a substantial period of time between the date as of which the Partners must tender the Units and the date they can expect to receive payment for their Units from a Fund. However, promptly after the expiration of a repurchase offer, Partners whose Units are accepted for repurchase may be given non-interest bearing, non-transferable promissory notes by the Fund representing the Fund's obligation to pay for repurchased Units. Any such promissory notes will be held by the Administrator and can be provided upon request by calling UMB Fund Services at 1-888-844-3350. Payments for repurchased Units may be delayed under circumstances where the Master Fund has determined to redeem its interest in Adviser Funds to make such payments, but has experienced delays in receiving payments from the Adviser Funds.

Repurchases of Units by each Fund are subject to certain regulatory requirements imposed by SEC rules.

TRANSFERS OF UNITS

No person shall become a substituted Partner of a Fund without the consent of that Fund, which consent may be withheld in its sole discretion. Units held by Partners may be transferred only: (i) by operation of law; or (ii) under other extremely limited circumstances, with the consent of the Board (which may be withheld in its sole and absolute discretion and is expected to be granted, if at all, only under extenuating circumstances).

Unless counsel to a Fund confirms that the transfer will not cause the Fund to be treated as a "publicly traded partnership" taxable as a corporation, the Board generally will not consider consenting to a transfer of a Unit (or portion of a Unit) unless the transfer is: (i) one in which the tax basis of the Unit in the hands of the transferee is determined, in whole or in part, by reference to its tax basis in the hands of the transferring Partner (e.g., certain transfers to affiliates, gifts and contributions to family entities); (ii) to members of the transferring Partner's immediate family (siblings, spouse, parents, or children); or, with respect to the TEI Institutional Fund, (iii) a distribution from a tax-qualified retirement plan or an individual retirement account.

Notice to a Fund of any proposed transfer must include evidence satisfactory to the Board that the proposed transferee, at the time of transfer, meets any requirements imposed by the Fund with respect to investor eligibility and suitability. See "INVESTOR QUALIFICATIONS." Notice of a proposed transfer of a Unit must also be accompanied by a properly completed investor application in respect of the proposed transferee. In connection with any request to transfer a Unit (or portion of a Unit), a Fund may require the Partner requesting the transfer to obtain, at the Partner's expense, an opinion of counsel selected by the Fund as to such matters as the Fund may reasonably request. The Board generally will not consent to a transfer of a Unit by a Partner (i) unless such transfer is to a single transferee, or (ii) if, after the transfer of the Unit, the balance of the capital account of each of the transferee and transferor is less than \$50,000. Each transferring Partner and transferee may be charged reasonable expenses, including, but not limited to, attorneys' and accountants' fees, incurred by the Fund in connection with the transfer.

Any transferee acquiring a Unit or a portion of a Unit by operation of law in connection with the death, bankruptcy, insolvency, adjudicated incompetence or dissolution of the Partner, will be entitled to the allocations and distributions allocable to the Unit or portion of the Unit so acquired, to transfer the Unit or portion of the Unit in accordance with the terms of the applicable Limited Partnership Agreement and to tender the Unit or portion of the Unit for repurchase by a Fund, but will not be entitled to the other rights of a Partner unless and until the transferee becomes a substituted Partner as specified in that Fund's Limited Partnership Agreement. If a Partner transfers a Unit with the approval of the Board, each Fund shall as promptly as practicable take all necessary actions so that each transferee or successor to whom the Unit is transferred is admitted to the Fund as a Partner.

By subscribing for a Unit, each Partner agrees to indemnify and hold harmless a Fund, its Board, the General Partner of the Fund, the Investment Manager, and each other Partner, and any affiliate of the foregoing against all losses, claims, damages, liabilities, costs, and expenses (including legal or other expenses incurred in investigating or defending against any losses, claims, damages, liabilities, costs, and expenses or any judgments, fines, and amounts paid in settlement), joint or several, to which such persons may become subject by reason of or arising from any transfer made by that Partner in violation of the Limited Partnership Agreement or any misrepresentation made by that Partner in connection with any such transfer.

CAPITAL ACCOUNTS AND ALLOCATIONS

Capital Accounts. Each Fund shall maintain a separate capital account on its books for each Partner. As of any date, the capital account of a Partner shall be equal to the NAV per Unit as of such date, multiplied by the number of Units then held by such Partner. Any amounts charged or debited against a Partner's capital account under a Fund's ability to allocate special items, and to accrue reserves as described under "*Reserves*" below, other than among all Partners in accordance with the number of Units held by each such Partner, shall be treated as a partial redemption of such Partner's Units for no additional consideration as of the date on which the Board determines such charge or debit is required to be made, and such Partner's Units shall be reduced thereby as appropriately determined by the Fund. Any amounts credited to a Partner's capital account under a Fund's ability to allocate special items and to accrue reserves, other than among all Partners in accordance with the number of Units held by each such Partner, shall be treated as an

issuance of additional Units to such Partner for no additional consideration as of the date on which the Board determines such credit is required to be made, and such Partner's Units shall be increased thereby as appropriately determined by the Fund.

Reserves. Appropriate reserves may be created, accrued, and charged against net assets and proportionately against the capital accounts of the Partners for contingent liabilities as of the date the contingent liabilities become known to a Fund or the Board. Reserves will be in such amounts (subject to increase or reduction) that that Fund or the Board may deem necessary or appropriate. The amount of any reserve, or any increase or decrease therein, will be proportionately charged or credited, as appropriate, to the capital accounts of those investors who are Partners at the time when such reserve is created, increased or decreased, as the case may be; provided, however, that if any such reserve, or any increase or decrease therein, exceeds the lesser of \$500,000 or 1% of the aggregate value of the capital accounts of all such Partners, the amount of such reserve, increase, or decrease shall instead be charged or credited to those investors who, as determined by the Board, were Partners at the time of the act or omission giving rise to the contingent liability for which the reserve was established, increased or decreased in proportion to their capital accounts at that time.

CALCULATION OF NET ASSET VALUE

GENERAL

The Funds, the Offshore Fund and the Master Fund calculate their respective NAV as of the close of business on the last business day of each Accounting Period (as defined below), as of each month-end, and at such other times as the Boards may determine, including in connection with repurchases of Units, in accordance with the procedures described below or as may be determined from time to time in accordance with policies established by the Boards. The NAV of the Core Alternatives Institutional Fund and the Master Fund will equal the value of the total assets of the Core Alternatives Institutional Fund and the Master Fund, respectively, less all of each entity's respective liabilities, including accrued fees and expenses. The NAV of the TEI Institutional Fund, Offshore Fund and the Master Fund will equal the value of the total assets of the TEI Institutional Fund, the Offshore Fund and the Master Fund, respectively, less all of each entity's respective liabilities, including accrued fees and expenses. The NAV of the Master Fund equals the value of the total assets of the Master Fund, less all of its liabilities, including accrued fees and expenses. In computing its NAV, the TEI Institutional Fund will value its interest in the Offshore Fund at the value of the Offshore Fund's interest in the Master Fund, and the Offshore Fund will value its interest in the Master Fund at the NAV provided by the Master Fund to the Offshore Fund. It is expected that the assets of the Funds will consist of their investment in the Master Fund. The NAV of the Master Fund depends on the value of the Adviser Funds, Adviser Accounts or other investments in which it invests.

The Investment Manager oversees the valuation of the Master Fund's investments, including its interests in the Adviser Funds, in accordance with written policies and procedures (the "Valuation Procedures") that the Boards and the Board of Directors of the Master Fund ("Master Fund Board") have approved for purposes of determining the fair value of securities held by the Master Fund, including the fair value of the Master Fund's investments in Adviser Funds. In accordance with the Valuation Procedures, fair value as of each month-end or as of the end of each Accounting Period, as applicable, ordinarily will be the value determined as of such date by each Adviser Fund in accordance with the Adviser Fund's valuation policies and reported at the time of the Master Fund's valuation. As a general matter, the fair value of the Master Fund's interest in an Adviser Fund will represent the amount that the Master Fund could reasonably expect to receive from the Adviser Fund if the Master Fund's interest was redeemed at the time of valuation (without regard to any early redemption fees or withdrawal fees that may be imposed by the Adviser Fund), based on information reasonably available at the time the valuation is made and that the Master Fund believes to be reliable. In the event that the Adviser Fund does not report a month-end value to the Master Fund on a timely basis, the Master Fund will determine the fair value of such Adviser Fund based on the most recent final or estimated value reported by the Adviser Fund, as well as any other relevant information available at the time the Master Fund values its portfolio. Using the nomenclature of the hedge fund industry, any values reported as "estimated" or "final" values are expected to reasonably reflect market values of securities when available or fair value as of the Master Fund's valuation date. A substantial amount of time may elapse between the occurrence of an event necessitating the pricing of Fund assets and the receipt of valuation information from the Adviser of an Adviser Fund.

Prior to the Master Fund investing in any Adviser Fund, the Investment Manager will conduct a due diligence review of the valuation methodologies utilized by the Adviser Fund, which as a general matter will utilize market values when available, and otherwise will utilize principles of fair value that the Investment Manager reasonably believes to be consistent, in all material respects, with those used by the Master Fund in valuing its own investments. Although the procedures approved by the Boards and the Master Fund Board provide that the Investment Manager will review the valuations provided by the Advisers to the Adviser Funds, none of the Master Fund Board, the Boards or the Investment Manager will be able to confirm independently the accuracy of valuations provided by such Advisers (which may be unaudited).

The Master Fund's Valuation Procedures require the Investment Manager to take reasonable steps in light of all relevant circumstances to value the Master Fund's portfolio. The Investment Manager will consider such information, and may conclude in certain circumstances that the information provided by an Adviser does not represent the fair value of the Master Fund's interests in the Adviser Fund. Although redemptions of interests in Adviser Funds are subject to advance notice requirements, Adviser Funds will

typically make available NAV information to holders which will represent the price at which, even in the absence of redemption activity, the Adviser Fund would have effected a redemption if any such requests had been timely made or if, in accordance with the terms of the Adviser Fund's governing documents, it would be necessary to effect a mandatory redemption. Following procedures adopted by the Boards and the Master Fund Board, the Investment Manager will consider whether it is appropriate, in light of all relevant circumstances, to value such interests at the NAV as reported by the Adviser at the time of valuation, or whether to adjust such value to reflect a premium or discount to NAV. In accordance with U.S. generally accepted accounting principles and industry practice, the Master Fund may not always apply a discount in cases where there is no contemporaneous redemption activity in a particular Adviser Fund. In other cases, as when an Adviser Fund imposes extraordinary restrictions on redemptions, when other extraordinary circumstances exist, or when there have been no recent transactions in Adviser Fund interests, the Master Fund may determine that it is appropriate to apply a discount to the NAV of the Adviser Fund. Any such decision will be made in good faith, and subject to the review and supervision of the Master Fund Board.

The valuations reported by the Advisers, upon which the Master Fund calculates its month-end NAV and the NAV of each Master Fund interest, including each Fund's Master Fund interest, may be subject to later adjustment or revision, based on information reasonably available at that time. For example, any "estimated" values from Adviser Funds may be revised and fiscal year-end NAV calculations of the Adviser Funds may be audited by their independent auditors and may be revised as a result of such audits. Other adjustments may occur from time to time. Because such adjustments or revisions, whether increasing or decreasing the NAV of the Master Fund, and therefore the Funds, at the time they occur, relate to information available only at the time of the adjustment or revision, the adjustment or revision may not affect the amount of the repurchase proceeds of the Funds received by Partners who had their Units in the Funds repurchased at a NAV calculated prior to such adjustments and received their repurchase proceeds, subject to the ability of the Funds to adjust or recoup the repurchase proceeds received by Partners under certain circumstances. As a result, to the extent that such subsequently adjusted valuations from the Advisers or revisions to the NAV of an Adviser Fund adversely affect the Master Fund's NAV, and therefore the Funds' NAV, the outstanding Units may be adversely affected by prior repurchases to the benefit of Partners who had their Units repurchased at a NAV higher than the adjusted amount. Conversely, any increases in the NAV resulting from such subsequently adjusted valuations may be entirely for the benefit of the outstanding Units and to the detriment of Partners who previously had their Units repurchased at a NAV lower than the adjusted amount. The same principles apply to the purchase of Units. New Partners may be affected in a similar way.

The Valuation Procedures provide that, where deemed appropriate by the Investment Manager and consistent with the 1940 Act, investments in Adviser Funds may be valued at cost. Cost will be used only when cost is determined to best approximate the fair value of the particular security under consideration. For example, cost may not be appropriate when the Master Fund is aware of sales of similar securities to third parties at materially different prices or in other circumstances where cost may not approximate fair value (which could include situations where there are no sales to third parties). In such a situation, the Master Fund's investment will be revalued in a manner that the Investment Manager, in accordance with the Valuation Procedures, determines in good faith best reflects approximate market value. The Master Fund Board will be responsible for ensuring that the Valuation Procedures utilized by the Investment Manager are fair to the Master Fund and consistent with applicable regulatory guidelines.

To the extent the Investment Manager invests the assets of the Master Fund in securities or other instruments that are not investments in Adviser Funds, the Master Fund will generally value such assets as described below. Securities traded (1) on one or more of the U.S. national securities exchanges or the OTC Bulletin Board will be valued at their last sales price, and (2) on NASDAQ will be valued at the NASDAQ Official Closing Price ("NOCP"), at the close of trading on the exchanges or markets where such securities are traded for the business day as of which such value is being determined. Securities traded on NASDAQ for which the NOCP is not available will be valued at the mean between the closing bid and asked prices in this market. Securities traded on a foreign securities exchange generally will be valued at their closing prices on the exchange where such securities are primarily traded and translated into U.S. dollars at the current exchange rate. If an event occurs between the close of the foreign exchange and the computation of the Master Fund's NAV that would materially affect the value of the security, the value of such a security will be adjusted to its fair value. Except as specified above, the value of a security, derivative, or synthetic security that is not actively traded on an exchange shall be determined by an unaffiliated pricing service that may use actual trade data or procedures using market indices, matrices, yield curves, specific trading characteristics of certain groups of securities, pricing models, or combinations of these. The Investment Manager will monitor the value assigned to each security by the pricing service to determine if it believes the value assigned to a security is correct. If the Investment Manager believes that the value received from the pricing service is incorrect, then the value of the security will be its fair value as determined in accordance with the Valuation Procedures.

Debt securities will be valued in accordance with the Valuation Procedures, which generally provide for using a third-party pricing system, agent, or dealer selected by the Investment Manager, which may include the use of valuations furnished by a pricing service that employs a matrix to determine valuations for normal institutional size trading units. The Boards will monitor periodically the reasonableness of valuations provided by any such pricing service. Debt securities with remaining maturities of 60 days or less, absent unusual circumstances, will be valued at amortized cost, so long as such valuations are determined by the Boards to represent fair value.

Assets and liabilities initially expressed in foreign currencies will be converted into U.S. dollars using foreign exchange rates provided by a pricing service. Trading in foreign securities generally is completed, and the values of such securities are determined, prior to the close of securities markets in the United States. Foreign exchange rates are also determined prior to such close. On occasion, the values of securities and exchange rates may be affected by events occurring between the time as of which determination of such values or exchange rates are made and the time as of which the NAV of the Master Fund is determined. When such events materially affect the values of securities held by the Master Fund or its liabilities, such securities and liabilities may be valued at fair value as determined in good faith in accordance with procedures approved by the Boards.

In general, fair value represents a good faith approximation of the current value of an asset and will be used when there is no public market or possibly no market at all for the asset. The fair values of one or more assets may not be the prices at which those assets are ultimately sold.

Although the Valuation Procedures approved by the Boards and the Master Fund provide that the Investment Manager will review the valuations provided by the Administrator (via the Advisers or their administrators), neither the Investment Manager nor the Administrator will be able to confirm independently the accuracy of any unaudited valuations provided thereby.

Prospective investors should be aware that situations involving uncertainties as to the valuation of portfolio positions could have an adverse effect on a Fund's net assets if the judgments of the Boards and/or the Investment Manager (in reliance on the Adviser Funds and/or their administrators) regarding appropriate valuations should prove incorrect. The Master Fund may desire to dispose of an interest in an Adviser Fund, but be unable to dispose of such interest, and could therefore be obligated to continue to hold the interests for an extended period of time. In such a case, the Administrator, upon consultation with the Investment Manager, may continue to value the interests in accordance with the Valuation Procedures, without the benefit of the Adviser's or its administrator's valuations, and may, if so instructed by the Investment Manager, in its sole discretion, discount the value of the interests, if applicable, in accordance with the Valuation Procedures.

Each accounting period begins on the business day after the last business day of the preceding accounting period, and each accounting period (each, an "Accounting Period") ends on the first to occur of (1) the last business day of each fiscal year of the Fund; (2) the last business day of each taxable year of the Fund; (3) the business day preceding the effective date on which a contribution of capital is made to the Fund; (4) the Valuation Date with respect to any repurchase of a Unit or portion of a Unit by the Fund or the complete withdrawal by a Partner; (5) the business day preceding the business day on which a substituted Partner is admitted to the Fund; or (6) the effective date on which any amount is credited to or debited from the capital account of any Partner other than an amount to be credited to or debited from the capital accounts of all Partners in accordance with their respective Units. Partners will be sent the estimated monthly NAV free of charge upon request.

SUSPENSION OF CALCULATION OF NET ASSET VALUE

The Board, after consultation with the Investment Manager, may declare a suspension of the determination of NAV, subscriptions and redemption of interests in the Master Fund and payment on redemptions:

- (a) during any period when any of the principal stock exchanges or markets on which a substantial portion of the Master Fund's assets are quoted is closed other than for ordinary holidays, or during which dealings are substantially restricted or suspended;
- (b) during the existence of any state of political, economic, military or monetary affairs that constitutes an emergency, as determined by the SEC, and that renders the disposal of assets by the Master Fund reasonably impracticable;
- (c) during any breakdown in the means of communication normally employed in determining the price of any of the Master Fund's assets or the current price on any market or stock exchange on which prices for such assets are quoted;
- (d) during any period when remittance or transfer of monies that will or may be involved in the realization or payment of any of the Master Fund's assets is not reasonably practicable; or
- (e) during any period in which circumstances exist such that the Board reasonably deems it appropriate to suspend the calculation of NAV including, but not limited to, a request for a redemption that would seriously impair the Master Fund's ability to operate or jeopardize its tax status.

Any suspension shall take effect at such time as the Board shall declare but not later than the close of business on the business day next following the declaration, and thereafter there shall be no determination of the NAV of the assets of the Master Fund until the Board shall declare the suspension at an end, except that such suspension shall terminate in any event on the first business day on

which (a) the condition giving rise to the suspension shall have ceased to exist; and (b) no other condition under which suspension is authorized shall exist. Each declaration by the Board shall be consistent with such official rules and regulations (if any) relating to the subject matter thereof as shall have been promulgated by any authority having jurisdiction over the Master Fund and as shall be in effect at the time. To the extent not inconsistent with such official rules and regulations, the determination of the Board shall be conclusive. Whenever the Board declares a suspension of the determination of the NAV, then as soon as may be practicable after any such declaration, the Board will give notice to limited partners of the Master Fund, including each Fund, stating that such declaration has been made. At the end of any period of suspension as aforementioned, the Board will give notice to all limited partners of the Master Fund, including each Fund, stating that the period of suspension has ended.

TAXES

The following summary describes certain tax aspects of an investment in the Funds.

THIS SUMMARY IS NECESSARILY GENERAL AND EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT WITH THE INVESTOR'S OWN TAX ADVISER WITH RESPECT TO THE FEDERAL, FOREIGN, STATE AND LOCAL TAX CONSEQUENCES OF PURCHASING AND HOLDING UNITS.

CLASSIFICATION OF THE FUNDS

THE FUNDS

Partnership Status. The Core Alternatives Institutional Fund and the TEI Institutional Fund have previously received opinions from Drinker Biddle & Reath LLP and the Master Fund received an opinion from its former counsel that under the provisions of the Internal Revenue Code of 1986, as amended (the "Code") and the regulations under it, as in effect on the date of the opinion, as well as under the relevant authority interpreting the Code and the regulations, and based upon certain assumptions, each of the Funds will be classified as a partnership for U.S. federal income tax purposes and not a corporation.

Under Section 7704 of the Code, a publicly traded partnership may be treated as a corporation for federal income tax purposes, even though it would otherwise be classified as a partnership. A "publicly traded partnership" is any partnership the interests in which are traded on an established securities market or which are readily tradable on a secondary market (or the substantial equivalent thereof). Units in the Core Alternatives Institutional Fund, the TEI Institutional Fund and the Master Fund will not be traded on an established securities market. Tax counsel has provided the Funds with opinions to the effect that the interests in those Funds will not be readily tradable on a secondary market (or the substantial equivalent of such a market) and, therefore, that each such Fund will not be treated as a "publicly traded partnership" taxable as a corporation. We believe that the relevant facts on which those opinions were based have not changed, so that the opinions continue to be applicable.

These opinions of counsel are not binding on the Service or the courts. If it were determined that a Fund should be taxable as a corporation for U.S. federal income tax purposes (as a result of, for example, a successful challenge to the opinions by the Service, changes in the Code or the Regulations or judicial interpretations of them, a material adverse change in facts, or otherwise), the taxable income of the Fund would be subject to corporate income tax. One consequence would be a significant reduction in the after-tax return to the Partners. The balance of the discussion below is based on the assumption that the Core Alternatives Institutional Fund, the TEI Institutional Fund and the Master Fund will be treated as partnerships for U.S. federal income tax purposes.

As a partnership, a Fund will not be subject to federal income tax. Each such Fund will each file annual partnership information returns with the Service, reporting the results of operations. Each Partner will be required to report separately on his income tax return his allocable share of the Core Alternatives Institutional Fund's or TEI Institutional Fund's, as the case may be, net long-term capital gain or loss, net short-term capital gain or loss and ordinary income or loss, which, in the case of the Core Alternatives Institutional Fund, will, in turn, include that Fund's allocable shares of those tax items of the Master Fund. Each Partner will be taxable on his allocable share of a Fund's taxable income and gain regardless whether he has received or will receive a distribution from the Fund.

Delayed Schedule K-1s. It is unlikely that the Funds will be able to provide final Schedules K-1 to Partners for any given year until significantly after April 15 of the following year. The General Partner will endeavor to provide Partners with estimates of the taxable income or loss allocated to their investment in the Funds on or before such date, but final Schedule K-1s will not be available until later than April 15. Partners will be required to obtain extensions of the filing date for their income tax returns at the federal, state and local levels.

CORE ALTERNATIVES INSTITUTIONAL FUND

Allocation of Profits and Losses. Under the Partnership Agreement, the Fund's net capital appreciation or net capital depreciation for each accounting period is allocated among the Partners and to their capital accounts without regard to the amount of income or loss actually recognized by the Fund for federal income tax purposes. The Partnership Agreement provides that items of income, deduction, gain, loss or credit actually recognized by the Fund for each fiscal year generally are to be allocated for income tax purposes among the Partners pursuant to the principles of Regulations issued under Sections 704(b) and 704(c) of the Code, based upon amounts of the Fund's net capital appreciation or net capital depreciation allocated to each Partner's capital account for the current and prior fiscal years.

Under the Partnership Agreement, the General Partner has the discretion to allocate specially an amount of the Fund's capital gain (including short-term capital gain) for federal income tax purposes to a withdrawing Partner to the extent that the Partner's capital account exceeds his federal income tax basis in his partnership Units (net of his allocable share of partnership liabilities). There can be no assurance that, if the General Partner makes such a special allocation, the Service will accept such allocation. If such allocation were to be successfully challenged by the Service, the Fund's gains allocable to the remaining Partners would be increased.

Tax Elections; Returns; Tax Audits. The General Partner will decide how to report the partnership items on both the Core Alternatives Institutional Fund's and the Master Fund's tax returns, and all Partners are required under the Code to treat the items consistently on their own federal income tax returns, unless they file a statement with the Service disclosing the inconsistency. Given the uncertainty and complexity of the tax laws, it is possible that the Service may not agree with the manner in which the Core Alternatives Institutional Fund's and Master Fund's items have been reported. In the event the income tax returns of either of those Funds are audited by the Service, the tax treatment of their income and deductions generally is determined at the limited partnership level in a single proceeding rather than by individual audits of the Partners. The General Partner, designated as the "tax matters partner," has considerable authority to make decisions affecting the tax treatment and procedural rights of all Partners. In addition, the tax matters partner has the power to extend the statute of limitations relating to the Partners' tax liabilities with respect to Fund tax items, and, unless a Partner objects, the authority to bind each Partner to settlement agreements with respect to tax items of the Master Fund.

The Code provides for optional adjustments to the basis of partnership property upon distributions of partnership property to a partner and transfers of partnership interests (including by reason of death) provided that a partnership election has been made pursuant to Section 754. Under the Partnership Agreement, at the request of a Partner, the General Partner, in its sole discretion, may cause the Fund to make such an election. Any such election, once made, cannot be revoked without the Service's consent. As a result of the complexity and added expense of the tax accounting required to implement such an election, the General Partner currently does not intend to make such election. Under some circumstances, however, a downward basis adjustment may be mandatory.

Tax Consequences of Fund Distributions

Distributions of Cash. Except as provided above, a Partner receiving a cash liquidating distribution from the Fund, in connection with a complete withdrawal from the Fund, generally will recognize capital gain or loss to the extent of the difference between the proceeds received by the Partner and the Partner's adjusted tax basis in his Units. The capital gain or loss will be short-term, long-term, or some combination of both, depending upon the timing of the Partner's contributions to the Fund. However, a withdrawing Partner will recognize ordinary income to the extent of the Partner's allocable share of the Fund's "unrealized receivables" (as determined pursuant to the Regulations). For these purposes, accrued but untaxed market discount, if any, on securities held by the Fund will be treated as an unrealized receivable, with respect to which a withdrawing Partner will recognize ordinary income.

A Partner receiving a cash nonliquidating distribution will generally recognize income and/or gain only (1) to the extent of the unrealized receivables allocable to the portion of the Partner's Units that is being redeemed, which amount will be ordinary income, and (2) to the extent that the amount of the distribution exceeds the sum of (a) the Partner's adjusted tax basis in all of the Partner's Units and (b) the amount of such unrealized receivables, which amount will be capital gain.

As discussed above, the Partnership Agreement provides that the General Partner may specially allocate items of the Fund's capital gain (including short-term capital gain) to a withdrawing Partner to the extent the withdrawing Partner's capital account would otherwise exceed his adjusted tax basis in his Units (net of his allocable share of partnership liabilities). Such a special allocation may result in the withdrawing Partner recognizing capital gain, which may include short-term gain, in the Partner's last taxable year in the Fund, with an equal and offsetting reduction in the amount of long-term capital gain recognized by the Partner on the liquidating distribution upon withdrawal.

Distributions of Property. Subject to the discussion below, a partner's receipt of a distribution of property from a partnership is generally not taxable. However, under Section 731 of the Code, a distribution consisting of marketable securities generally is treated

as a distribution of cash (rather than property) unless the distributing partnership is an “investment partnership” within the meaning of Section 731(c)(3)(C)(i) and the recipient is an “eligible partner” within the meaning of Section 731(c)(3)(C)(iii). The Fund will determine at the appropriate time whether they qualify as an “investment partnership.” Assuming they so qualify, if a Partner is an “eligible partner,” which term should include a Partner whose contributions to the Fund consisted solely of cash and/or securities, the recharacterization rule described above would not apply.

In determining whether, if at all, the Fund should distribute stocks or securities to a particular Partner, the General Partner intends to attempt to take into account the tax consequences to the Fund and the remaining Partners, as well as the desirability of making the distribution in light of the Fund’s investment program.

Foreign Taxes

It is possible that certain dividends and interest received by the Master Fund from sources within foreign countries will be subject to withholding taxes imposed by those countries. In addition, the Master Fund may also be subject to capital gains taxes in some of the foreign countries where it purchases and sells securities. Tax treaties between certain countries and the United States may reduce those taxes. It is impossible to predict in advance the rate of foreign tax the Master Fund will pay, because the amount of the Master Fund’s assets to be invested in various countries is not known.

Each Partner in the Core Alternatives Institutional Fund will be informed of the Partner’s proportionate share of the foreign taxes paid by the Master Fund, which the Partner will be required to include in income for federal income tax purposes. The Partners generally will be entitled to claim either a credit (subject, however, to various limitations on foreign tax credits) or, if they itemize their deductions, a deduction (subject to the limitations generally applicable to deductions) for their share of such foreign taxes in computing their federal income taxes. A Partner that is tax-exempt will not ordinarily benefit from such credit or deduction.

Unrelated Business Taxable Income

Generally, an exempt organization (including, for example, a charity or a tax-qualified retirement plan) is exempt from federal income tax on its passive investment income, such as dividends, interest and capital gains, whether realized by the organization directly or indirectly through a partnership in which it is a partner.¹ This type of income is exempt even if it is realized from securities trading activity that constitutes a trade or business.

This general exemption from tax does not apply to the UBTI of an exempt organization. Generally, except as noted above with respect to certain categories of exempt trading activity, UBTI includes income or gain derived (either directly or through a partnership) from a trade or business, the conduct of which is substantially unrelated to the exercise or performance of the organization’s exempt purpose or function. With respect to investments in partnerships (and other entities classified as partnerships for federal income tax purposes) engaged in a trade or business other than securities trading, the Master Fund’s income (or loss) from these investments may constitute UBTI.

UBTI also includes “unrelated debt-financed income,” which generally consists of (1) income derived by an exempt organization (directly or through a partnership) from income-producing property with respect to which there is “acquisition indebtedness” at any time during the taxable year, and (2) gains derived by an exempt organization (directly or through a partnership) from the disposition of property with respect to which there is “acquisition indebtedness” at any time during the twelve-month period ending with the date of such disposition. “Acquisition indebtedness” may include both debt incurred by the exempt organization to finance its investment in the Fund and debt incurred by the Master Fund.

The Master Fund may incur “acquisition indebtedness” with respect to certain of its transactions, such as the purchase of securities on margin. Based upon a published ruling issued by the Service that generally holds that income and gain with respect to short sales of publicly traded stock does not constitute income from debt financed property for purposes of computing UBTI, the Master Fund will treat its short sales of securities as not involving “acquisition indebtedness” and therefore not resulting in UBTI.² To the extent the Master Fund recognizes income (i.e., dividends and interest) from securities with respect to which there is “acquisition indebtedness” during a taxable year, the percentage of such income that will be treated as UBTI generally will be based on the percentage that the “average acquisition indebtedness” incurred with respect to such securities is of the “average amount of the adjusted basis” of such securities during the taxable year. Indebtedness incurred by an exempt organization to acquire or to carry its investment in the Fund will also be treated as “acquisition indebtedness” for these purposes.

¹ With certain exceptions, tax-exempt organizations that are private foundations are subject to a 2% federal excise tax on their “net investment income.” The rate of the excise tax for any taxable year may be reduced to 1% if the private foundation meets certain distribution requirements for the taxable year. A private foundation will be required to make payments of estimated tax with respect to this excise tax.

² Moreover, income realized from option writing and futures contract transactions generally should not constitute UBTI.

To the extent the Master Fund recognizes gain from securities with respect to which there is “acquisition indebtedness” at any time during the twelve-month period ending with the date of their disposition, the percentage of such gain that will be treated as UBTI will be based on the percentage that the highest amount of such “acquisition indebtedness” is of the “average amount of the adjusted basis” of such securities during such period. In determining the unrelated debt-financed income of the Master Fund, an allocable portion of deductions directly connected with the Master Fund’s debt-financed property is taken into account. Thus, for instance, a percentage of losses, if any, from debt-financed securities (based on the debt/basis percentage calculation described above) may offset gains treated as UBTI.

Because the calculation of the Master Fund’s “unrelated debt-financed income” is complex and will depend in large part on the amount of leverage, if any, used by the Master Fund from time to time,³ it is impossible to predict what percentage of the Core Alternatives Institutional Fund’s income and gains will be treated as UBTI for a Partner that is an exempt organization. An exempt organization’s share of the income or gains of the Core Alternatives Institutional Fund that is treated as UBTI cannot be offset by losses of the exempt organization either from the Fund or otherwise, unless those losses are treated as attributable to an unrelated trade or business (e.g., losses from securities for which there is acquisition indebtedness).

To the extent that the Master Fund generates UBTI, the applicable federal tax rate for an exempt organization that is a Partner in the Core Alternatives Institutional Fund generally will be either the corporate or the trust tax rate, depending upon the nature of the particular exempt organization.⁴ However, a charitable remainder trust that has UBTI is subject to a 100% excise tax on the amount of that UBTI under Section 664(c)(2) of the Code. An exempt organization may be required to support, to the satisfaction of the Service, the method used to calculate its UBTI. The Core Alternatives Institutional Fund will be required to report to a Partner that is an exempt organization information as to the portion, if any, of its allocated income and gains from the Master Fund for each year which will be treated as UBTI. The calculation of this amount with respect to transactions entered into by the Master Fund may be highly complex, and there is no assurance that the Fund’s calculation of UBTI will be accepted by the Service.

In general, if UBTI is allocated to an exempt organization such as a tax-qualified retirement plan or a private foundation, the portion of the Master Fund’s income and gains that is not treated as UBTI will continue to be exempt from tax, as will the organization’s income and gains from other investments that are not treated as UBTI. Therefore, the possibility of realizing UBTI from its investment in the Fund generally should not affect the tax-exempt status of such an exempt organization.⁵ However, a title-holding company will not be exempt from tax if it has certain types of UBTI. Moreover, the charitable contribution deduction for a trust under Section 642(c) of the Code may be limited for any year in which the trust has UBTI. A prospective investor that is an exempt organization should consult its tax adviser with respect to the tax consequences of receiving UBTI from the Fund. (See “*ERISA Plans and Other Tax-Exempt Entities*” below.)

Certain Issues Pertaining to Specific Exempt Organizations

Private Foundations. Private foundations and their managers are subject to excise taxes if they invest “any amount in such a manner as to jeopardize the carrying out of any of the foundation’s exempt purposes.” This rule requires a foundation manager, in making an investment, to exercise “ordinary business care and prudence” under the facts and circumstances prevailing at the time of making the investment, in providing for the short-term and long-term needs of the foundation to carry out its exempt purposes. The factors that a foundation manager may take into account in assessing an investment include the expected rate of return (both income and capital appreciation), the risks of rising and falling price levels, and the need for diversification within the foundation’s portfolio.

To avoid the imposition of an excise tax, a private foundation may be required to distribute on an annual basis its “distributable amount,” which includes, among other things, the private foundation’s “minimum investment return,” defined as 5% of the excess of the fair market value of its nonfunctionally related assets (assets not used or held for use in carrying out the foundation’s exempt purposes), over certain indebtedness incurred by the foundation in connection with such assets. It appears that a foundation’s investment in the Fund will probably be classified as a nonfunctionally related asset. A determination that Units in the Fund are nonfunctionally related assets could conceivably cause cash flow problems for a prospective Partner that is a private foundation. Such an organization could be required to make distributions in an amount determined by reference to unrealized appreciation in the value of its Units in the Fund. Of course, this factor would create less of a problem to the extent that the value of the investment in the Fund is not significant in relation to the value of other assets held by a foundation.

³ The calculation of a particular exempt organization’s UBTI will also be affected if it incurs indebtedness to finance its investment in the Fund.

⁴ An exempt organization is generally required to make estimated tax payments with respect to its UBTI.

⁵ Certain exempt organizations that realize UBTI in a taxable year will not constitute “qualified organizations” for purposes of Section 514(c)(9)(B)(vi)(I) of the Code, pursuant to which, in limited circumstances, income from certain real estate partnerships in which such organizations invest might be treated as exempt from UBTI. A prospective tax-exempt Limited Partner should consult its tax adviser in this regard.

In some instances, an investment in the Fund by a private foundation may be prohibited by the “excess business holdings” provisions of the Code. For example, if a private foundation (either directly or together with a “disqualified person”) acquires, indirectly, more than 20% of the capital interest or profits interest in the Master Fund, the private foundation may be considered to have “excess business holdings.” If this occurs, such foundation may be required to divest itself of its units in the Fund to avoid the imposition of an excise tax. However, the excise tax will not apply if at least 95% of the gross income from the Master Fund is “passive” within the applicable provisions of the Code and Regulations. Although there can be no assurance, the General Partner believes that the Master Fund will meet this 95% gross income test.

A substantial percentage of investments of certain “private operating foundations” may be restricted to assets directly devoted to their tax-exempt purposes. Otherwise, generally, rules similar to those discussed above govern their operations.

Endowment Funds. Investment managers of endowment funds should consider whether the acquisition of Units is legally permissible. This is not a matter of federal law, but is determined under state statutes. It should be noted, however, that under the Uniform Management of Institutional Funds Act, which has been adopted, in various forms, by a large number of states, participation in investment partnerships or similar organizations in which funds are commingled and investment determinations are made by persons other than the governing board of the endowment fund is allowed.

State and Local Taxation

In addition to the federal income tax consequences described above, prospective investors should consider potential state and local tax consequences of an investment in the Fund. State and local laws often differ from federal income tax laws with respect to the treatment of specific items of income, gain, loss, deduction and credit. A Partner’s allocable share of the taxable income or loss of the Fund generally will be required to be included in determining the Partner’s reportable income for state and local tax purposes in the jurisdiction in which he is a resident. A partnership in which the Master Fund acquires an interest may conduct business in a jurisdiction that will subject to tax a Partner’s share of the partnership’s income from that business. Prospective investors should consult their tax advisers with respect to the availability of a credit for such tax in their jurisdiction of residence.

ERISA Plans and Other Tax-Exempt Entities

Prospective investors subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) and/or Section 4975 of the Code, including employee benefit plans, individual retirement accounts, and Keogh plans, and other tax-exempt entities, may not purchase or hold Units in the Core Alternatives Institutional Fund (except to the extent a tax-exempt entity is an investor in a Partner, provided such Partner is not an entity the underlying assets of which constitute the assets of a plan(s) subject to ERISA and/or Section 4975 of the Code). The Fund’s assets will not constitute “plan assets” for purposes of ERISA’s fiduciary responsibility and prohibited transaction rules or similar provisions of the Code because of the Fund’s registration under the 1940 Act.

TEI INSTITUTIONAL FUND

Taxation of the Offshore Fund

The tax status of the Offshore Fund and its members under the tax laws of the Cayman Islands and the United States is summarized below. The summary is based on the assumption that the Offshore Fund is owned, managed, and operated as contemplated, and on the assumption that shares of the Offshore Fund will be held by the Fund and that Units of the Fund will be held by tax-exempt investors. The summary is based on existing laws as applied on the date of this Prospectus but no representation is made or intended (i) that changes in such laws or their application or interpretation will not be made in the future or (ii) that the IRS will agree with the interpretation described below. Prospective investors should consult their own tax and legal advisers with respect to the tax consequences of the purchase, holding, redemption, sale, or transfer of Interests.

The Offshore Fund will be treated as a corporation for U.S. federal income tax purposes.

Aside from certain 30% withholding taxes (discussed below), the Offshore Fund generally will not be subject to taxation by the United States on income or gain realized by the Master Fund from its stock, securities, commodities or derivatives trading for a taxable year, provided that the Offshore Fund is not engaged or deemed to be engaged in a U.S. trade or business during a taxable year to which any such income, gain, or loss of the Master Fund is treated as effectively connected. An investment in the Master Fund should not, by itself, cause the Offshore Fund to be engaged in a U.S. trade or business for the foregoing purpose, so long as (1) the Master Fund is not considered a dealer in stock, securities or commodities and does not regularly offer to enter into, assume, offset, assign or otherwise terminate positions in derivatives with customers, (2) the U.S. business activities of the Master Fund consist solely of trading in stock, securities, commodities, and derivatives for its own account (and, in the case of commodities, is limited to trading plural in commodities of a kind customarily dealt in on an organized exchange in transactions of a kind customarily consummated there), and (3) any entity treated as a partnership for U.S. Federal income tax purposes in which the Master Fund invests is not deemed to be engaged in a U.S. trade or business.

With respect to (3) above, the Offshore Fund has no control over whether entities treated as partnerships for U.S. federal income tax purposes in which the Master Fund invests are engaged or deemed to be engaged in a U.S. trade or business. However, the Master Fund intends to use reasonable efforts to reduce or eliminate the extent to which it allocates investment assets to entities treated as partnerships for U.S. Federal income tax purposes that are engaged or deemed to be engaged in a U.S. trade or business.

In the event that the Master Fund were found to be engaged in a U.S. trade or business, the Offshore Fund would be required to file a U.S. Federal income tax return for such year on IRS Form 1120-F and pay tax at full U.S. corporate income tax rates on the portion of its income that is treated as effectively connected with such U.S. trade or business, and an additional 30% branch profits tax would be imposed under Section 884 of the Code on profits deemed repatriated from the United States. In addition, in such event, the Master Fund would be required under Section 1446 of the Code to withhold taxes with respect to the “effectively connected” income or gain allocable to the Offshore Fund (which withholding taxes would be applied toward the Offshore Fund’s tax liabilities).

Assuming that the Master Fund is not engaged in a U.S. trade or business, the Offshore Fund will be subject to withholding of Federal income tax at a 30% rate on its allocable share of the Master Fund’s U.S.-source dividend income and other U.S.-source fixed or determinable annual or periodic gains, profits, or income as defined in Section 881(a) of the Code other than most forms of interest income. The Master Fund will also generally not qualify for any tax treaty benefits with respect to the Offshore Fund’s allocable shares of dividends, interest and gains on securities that are subject to foreign withholding taxes.

The Offshore Fund does not expect to maintain significant cash reserves, but generally intend to invest any cash reserves that may exist in a manner so as not to be subject to 30% withholding.

Legislation has been introduced that would treat certain offshore corporations that are managed or controlled in the United States as U.S. corporations for federal income tax purposes. If this legislation were to pass, the Offshore Fund would be subject to U.S. federal income tax.

INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISERS WITH RESPECT TO THE SPECIFIC FEDERAL, STATE, LOCAL, U.S. AND NON-U.S. TAX CONSEQUENCES OF THE PURCHASE AND OWNERSHIP OF AN INTEREST IN THE FUND AND/OR THE FILING REQUIREMENTS, IF ANY, ASSOCIATED WITH THE PURCHASE AND OWNERSHIP OF AN INTEREST IN THE FUND.

Investment by Tax-Qualified Retirement Plans and other Tax-Exempt Investors

Tax-qualified pension and profit-sharing plans (including Keogh or HR-10 plans), traditional and Roth individual retirement accounts described in Sections 408 and 403A of the Code, respectively (“IRAs”), educational institutions, and other investors exempt from taxation under Section 501 of the Code are generally exempt from Federal income tax except to the extent that they recognize UBTI. UBTI is income from an unrelated trade or business regularly carried on, excluding various types of investment such as dividends, interest, certain rental income, and capital gain, so long as not derived from debt-financed property. If a tax-exempt organization is a partner in a partnership that generates UBTI, the UBTI of the partnership will pass through to the organization. In addition, UBTI includes income derived from debt-financed property, i.e., property as to which there is “acquisition indebtedness”. Acquisition indebtedness is the unpaid amount of any debt incurred directly or indirectly to acquire or improve the property. During the period that any acquisition indebtedness is outstanding, a pro rata share of the income from the property will generally be UBTI based on the ratio of the average outstanding principal balance of the debt to the average tax basis of the property during the applicable tax year. To the extent the Master Fund holds debt-financed property or property primarily for sale to customers or becomes actively involved in trading securities, income attributable to such property or activity could constitute UBTI to a direct investor in the Master Fund. But, no such UBTI from the Master Fund should be attributable to a shareholder of the Offshore Fund or an investor in the TEI Institutional Fund, because UBTI generally should not pass through a corporation such as the Offshore Fund to its U.S. direct or indirect tax-exempt investors.

Because all shares of the Offshore Fund will be owned by the TEI Institutional Fund, which is a U.S. person for Federal income tax purposes, the Offshore Fund will be considered a controlled foreign corporation (“CFC”) for U.S. Federal income tax purposes. Income of a CFC is taxable as UBTI to a tax-exempt entity only if the income consists of certain kinds of insurance income as defined in Section 512(b)(17) of the Code. The Offshore Fund does not expect to generate UBTI of this type. Accordingly, the TEI Institutional Fund believes that income of the TEI Institutional Fund allocable to tax-exempt investors should not constitute UBTI.

If an investor incurs debt to finance the acquisition of a Unit, that acquisition indebtedness will separately cause income and gain from the TEI Institutional Fund to become UBTI under the rules applicable to debt-financed income. Each investor should consult its own tax adviser to determine whether any particular indebtedness of that investor may give rise to such debt-financed income as a result of an investment in the TEI Institutional Fund.

The foregoing discussion is intended to apply primarily to exempt organizations that are tax-qualified plans. The UBTI of certain other exempt organizations may be computed in accordance with special rules. Further, certain types of tax-exempt entities under the Code, such as “charitable remainder trusts” that are required to make taxable distributions based upon income received from all sources, may be disadvantaged under the rules relating to CFCs in a manner similar to taxable investors. Charitable remainder trusts are generally required, under their trust instruments and for purposes of qualifying under the Code for tax exemption, to make current distributions of all or a significant portion of their income. As an investor in a CFC, such a trust would be deemed to receive income each year from the CFC whether or not the CFC currently distributes such income. For these reasons, the Fund is not an appropriate investment for a charitable remainder trust.

U.S. TAX-EXEMPT INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISERS CONCERNING THE U.S. TAX CONSEQUENCES TO THEM OF ANY INVESTMENT IN A FUND.

Investment by Benefit Plans and IRAs

This section sets forth certain consequences under ERISA and Section 4975 of the Code which a fiduciary of an “employee benefit plan” as defined in and subject to ERISA (an “ERISA Plan”) or of a “plan” as defined in and subject to Section 4975 of the Code should consider before investing or deciding to invest the plan’s assets in the TEI Institutional Fund (such ERISA Plans and other “plans” being referred to herein as “Plans,” and such fiduciaries being referred to herein as “Plan Fiduciaries”). The following summary is not intended to be complete, but only to address certain questions under ERISA and the Code which are likely to be raised by the Plan Fiduciary’s own counsel.

In general, the terms “employee benefit plan” as defined in ERISA and “plan” as defined in Section 4975 of the Code together refer to any plan or account of various types which provide retirement benefits or welfare benefits to an individual or to an employer’s employees and their beneficiaries. Such plans and accounts include, but are not limited to, pension and profit-sharing plans (including “Section 401(k) plans”), “simplified employee pension plans,” non-ERISA Keogh plans for self-employed individuals (including partners), IRAs, and medical benefit plans.

Each Plan Fiduciary of an ERISA Plan who has investment discretion must give appropriate consideration to the facts and circumstances that are relevant to an investment in the TEI Institutional Fund, including the role an investment in the TEI Institutional Fund plays in the ERISA Plan’s investment portfolio and the projected return of the ERISA Plan’s total portfolio relative to the ERISA Plan’s funding objectives. Each such Plan Fiduciary of an ERISA Plan, before deciding to invest in the TEI Institutional Fund, must be satisfied that investment in the TEI Institutional Fund is a prudent investment for the ERISA Plan, that the investments of the ERISA Plan, including the investment in the TEI Institutional Fund, are diversified so as to minimize the risk of large losses (unless, under the circumstances, it is clearly prudent not to do so), and that an investment in the TEI Institutional Fund complies with the documents of the ERISA Plan and related trust. If a Plan Fiduciary of an ERISA Plan breaches his or her fiduciary responsibilities with regard to selecting an investment for an ERISA Plan, the Plan Fiduciary may be held personally liable for losses incurred by the ERISA Plan as a result of such breach.

A Plan Fiduciary of an ERISA Plan, such as a directed trustee, who invests ERISA Plan assets in the TEI Institutional Fund at the direction of another Plan Fiduciary or, in the case of a participant-directed ERISA Plan, at the direction of an ERISA Plan participant or beneficiary, generally has only limited fiduciary responsibility under ERISA with respect to the investment. Also, a Plan Fiduciary who has control over the availability of investments in a participant-directed ERISA Plan has fiduciary responsibility to monitor such investments. Such Plan Fiduciaries should consult with legal counsel to ensure that investment in the TEI Institutional Fund is consistent with their fiduciary responsibilities under ERISA.

Because the TEI Institutional Fund will be registered as an investment company under the 1940 Act, the underlying assets of the TEI Institutional Fund will not be considered “plan assets” of the Plans investing in the TEI Institutional Fund for purposes of ERISA’s fiduciary responsibility and prohibited transaction rules or the prohibited transaction rules of Section 4975 of the Code. Thus, the Investment Manager will not, solely as a result of the Plan’s investment in the TEI Institutional Fund, be a fiduciary with respect to the assets of any Plan that becomes a Partner of the TEI Institutional Fund.

The Board will require a Plan proposing to invest in the TEI Institutional Fund to represent that it, and any fiduciaries responsible for the Plan’s investments, are aware of and understand the TEI Institutional Fund’s investment objective, policies, and strategies, that the decision to invest Plan assets in the TEI Institutional Fund was made with appropriate consideration of relevant investment factors with regard to the Plan, and, with respect to an ERISA Plan, that the decision to invest ERISA Plan assets in the TEI Institutional Fund is consistent with the duties and responsibilities imposed upon fiduciaries with regard to their investment decisions under ERISA.

Certain prospective Plan investors may currently maintain relationships with the Investment Manager or one or more investment advisers of Adviser Funds in which the Master Fund will invest, or with other entities that are affiliated with the Investment Manager or such investment advisers. Each of such persons may be deemed to be a “party in interest” (as defined in Section 3(14) of ERISA) or a “disqualified person” (as defined in Section 4975 of the Code) with respect to, and/or a fiduciary of, any Plan to which it (or an affiliate) provides investment management, investment advisory, or other services. ERISA and Section 4975 of the Code prohibit Plan assets from being used for the benefit of a party in interest or disqualified person and also prohibit a Plan Fiduciary from using its fiduciary authority, control or responsibility to cause the Plan to make an investment from which it or certain third parties in which such Plan Fiduciary has an interest would receive a fee or other consideration. Plan investors should consult with legal counsel to determine if participation in the TEI Institutional Fund is a transaction that is prohibited by ERISA or the Code, and will be required to represent that the purchase of Units in the TEI Institutional Fund is not such a prohibited transaction. Plan Fiduciaries also will be required to represent that the decision to invest in the TEI Institutional Fund was made by them as fiduciaries that are independent of such affiliated persons, that are duly authorized to make such investment decisions, and that have not relied on any individualized advice or recommendation of such affiliated persons as a primary basis for the decision to invest in the TEI Institutional Fund.

The foregoing statements regarding the consequences under ERISA and the Code of an investment in the TEI Institutional Fund are based on the provisions of the Code and ERISA as in effect on April 1, 2011, and the then-existing administrative and judicial interpretations thereunder. No assurance can be given that administrative, judicial, or legislative changes will not occur that will not make the foregoing statements incorrect or incomplete.

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

BOTH FUNDS

FOR ADDITIONAL INFORMATION ON AN INVESTMENT IN THE FUNDS, SEE “CERTAIN TAX CONSIDERATIONS” IN THE SAI. INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISERS WITH RESPECT TO THE SPECIFIC FEDERAL, STATE, LOCAL, U.S. AND NON-U.S. TAX CONSEQUENCES OF THE PURCHASE AND OWNERSHIP OF UNITS IN A FUND AND/OR THE FILING REQUIREMENTS, IF ANY, ASSOCIATED WITH THE PURCHASE AND OWNERSHIP OF UNITS IN A FUND.

TABLE OF CONTENTS OF THE STATEMENT OF ADDITIONAL INFORMATION

PURCHASE TERMS	1
INVESTMENT POLICIES AND PRACTICES	1
CERTAIN PORTFOLIO SECURITIES AND OTHER OPERATING POLICIES	3
RISKS OF SECURITIES ACTIVITIES OF THE ADVISERS	8
SPECIAL INVESTMENT INSTRUMENTS AND TECHNIQUES	15
OTHER POTENTIAL RISKS AND ADDITIONAL INVESTMENT INFORMATION	17
BOARDS OF DIRECTORS AND OFFICERS	19
CODES OF ETHICS	25
PROXY VOTING POLICIES AND PROCEDURES	25
INVESTMENT MANAGEMENT SERVICES	26
CONFLICTS OF INTEREST RELATING TO THE INVESTMENT MANAGER	29
CONFLICTS OF INTEREST RELATING TO ADVISERS	30
CERTAIN TAX CONSIDERATIONS	31
ERISA AND RELATED CONSIDERATIONS	35
BROKERAGE	36
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM AND LEGAL COUNSEL	37
CUSTODIANS	37
FUND SERVICING FEE	38
SUMMARY OF AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENTS	38
REPORTS TO PARTNERS	40
ANTI-MONEY LAUNDERING CONSIDERATIONS	41
FISCAL YEARS	42
FUND ADVERTISING AND SALES MATERIAL	42
FINANCIAL STATEMENTS	43
APPENDIX A INDUSTRY CLASSIFICATIONS	A-1
APPENDIX B FINANCIAL STATEMENTS	B-1

HATTERAS CORE ALTERNATIVES INSTITUTIONAL FUND, L.P.
HATTERAS CORE ALTERNATIVES TEI INSTITUTIONAL FUND, L.P.

8540 Colonnade Center Drive
Suite 401
Raleigh, NC 27615
888.363.2324

Investment Manager

Hatteras Investment Partners, LLC
8540 Colonnade Center Drive
Suite 401
Raleigh, NC 27615

Fund Counsel

Drinker Biddle & Reath LLP
One Logan Square, Suite 2000
Philadelphia, PA 19103

Distributor

Hatteras Capital Distributors, LLC
8540 Colonnade Center Drive
Suite 401
Raleigh, NC 27615

Independent Registered Public Accounting Firm

Deloitte & Touche LLP
1700 Market Street
25th Floor
Philadelphia, PA 19103

Transfer Agent / Administrator

UMB Fund Services, Inc.
803 West Michigan Street
Milwaukee, WI 53233

Custodian Banks

UMB Bank, N.A.
1010 Grand Boulevard
Kansas City, MO 64106

U.S. Bank National Association
800 Nicollet Mall
Minneapolis, MN 55402

HATTERAS CORE ALTERNATIVES INSTITUTIONAL FUND, L.P.

Amended and Restated Agreement of Limited Partnership
Dated as of January 1, 2012

TABLE OF CONTENTS

	<u>Page</u>
ARTICLE I	DEFINITIONS 1
ARTICLE II	ORGANIZATION; ADMISSION OF PARTNERS; DIRECTORS 5
SECTION 2.1	Formation of Limited Partnership 5
SECTION 2.2	Name 6
SECTION 2.3	Principal and Registered Office 6
SECTION 2.4	Duration 6
SECTION 2.5	Business of the Partnership 6
SECTION 2.6	General Partner 6
SECTION 2.7	Limited Partners 7
SECTION 2.8	Organizational Limited Partner 7
SECTION 2.9	Both General and Limited Partner 7
SECTION 2.10	Limited Liability 7
SECTION 2.11	Directors 8
ARTICLE III	MANAGEMENT; ADVICE AND MANAGEMENT 9
SECTION 3.1	Management and Control 9
SECTION 3.2	Powers Reserved by the General Partner 10
SECTION 3.3	Actions by Directors 12
SECTION 3.4	Meetings of Partners 13
SECTION 3.5	Custody of Assets of the Partnership 14
SECTION 3.6	Other Activities 14
SECTION 3.7	Duty of Care 15
SECTION 3.8	Indemnification 16
SECTION 3.9	Fees, Expenses and Reimbursement 18
ARTICLE IV	TERMINATION OF STATUS OF GENERAL PARTNER; REMOVAL OF GENERAL PARTNER; TRANSFERS AND REPURCHASES 20
SECTION 4.1	Termination of Status of General Partner 20
SECTION 4.2	Removal of General Partner 21
SECTION 4.3	Transfer of Units of General Partner 21
SECTION 4.4	Transfer of Units of Limited Partners 21
SECTION 4.5	Repurchase of Units 22
ARTICLE V	CAPITAL 27
SECTION 5.1	Contributions to Capital 27
SECTION 5.2	Rights of Partners to Capital 28
SECTION 5.3	Capital Accounts 28
SECTION 5.4	Allocation of Certain Withholding Taxes and Other Expenditures 28
SECTION 5.5	Reserves 29
SECTION 5.6	Allocation to Avoid Capital Account Deficits 30
SECTION 5.7	Allocations Prior to Closing Date 30
SECTION 5.8	Tax Allocations 30
SECTION 5.9	Distributions 31

ARTICLE VI	DISSOLUTION AND LIQUIDATION	32
SECTION 6.1	Dissolution	32
SECTION 6.2	Liquidation of Assets	33
ARTICLE VII	ACCOUNTING, VALUATIONS AND BOOKS AND RECORDS	34
SECTION 7.1	Accounting and Reports	34
SECTION 7.2	Determinations by General Partner	34
SECTION 7.3	Valuation of Assets	35
ARTICLE VIII	MISCELLANEOUS PROVISIONS	35
SECTION 8.1	Amendment of Partnership Agreement	35
SECTION 8.2	Special Power of Attorney	37
SECTION 8.3	Notices	38
SECTION 8.4	Agreement Binding Upon Successors and Assigns	38
SECTION 8.5	Choice of Law; Arbitration	38
SECTION 8.6	Not for Benefit of Creditors	40
SECTION 8.7	Consents	40
SECTION 8.8	Merger and Consolidation	40
SECTION 8.9	Pronouns	40
SECTION 8.10	Confidentiality	41
SECTION 8.11	Certification of Non-Foreign Status	42
SECTION 8.12	Severability	42
SECTION 8.13	Entire Agreement	42
SECTION 8.14	Discretion	42
SECTION 8.15	Conflicts	43
SECTION 8.16	Counterparts	43
SECTION 8.17	Headings	43

HATTERAS CORE ALTERNATIVES INSTITUTIONAL FUND, L.P.

AMENDED AND RESTATED
AGREEMENT OF LIMITED PARTNERSHIP

AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP of HATTERAS CORE ALTERNATIVES INSTITUTIONAL FUND, L.P. (the “Partnership”) dated as of January 1, 2012 by and among HATTERAS INVESTMENT MANAGEMENT LLC, as General Partner, David B. Perkins, as the Organizational Limited Partner and those Persons who execute this Agreement and whose names are reflected on the books and records of the Partnership as Limited Partners.

WHEREAS, the General Partner and organizational limited partner were parties to the Agreement of Limited Partnership of Hatteras Core Alternatives Institutional Fund, L.P. dated as of November 29, 2006 (the “Original Partnership Agreement”);

WHEREAS, the Original Partnership Agreement was amended and restated in its entirety on July 1, 2008 (the “First Amended and Restated Partnership Agreement”); and

WHEREAS, the First Amended and Restated Partnership Agreement was amended and restated in its entirety on December 3, 2010 (the “Second Amended and Restated Partnership Agreement”); and

WHEREAS, the Second Amended and Restated Partnership Agreement is hereby amended and restated in its entirety as set forth herein;

NOW, THEREFORE, for and in consideration of the mutual covenants and agreements herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

For purposes of this Agreement:

“1933 Act” means the Securities Act of 1933 and the rules, regulations and orders under the 1933 Act, as amended from time to time, or any successor law.

“1940 Act” means the Investment Company Act of 1940 and the rules, regulations and orders under the 1940 Act, as amended from time to time, or any successor law.

“Advisers Act” means the Investment Advisers Act of 1940 and the rules, regulations and orders under the Advisers Act, as amended from time to time, or any successor law.

“Advisor” means any Person designated to manage a portion of the assets of the Partnership and/or the Master Partnership, either directly or through the investment by the Partnership in an Advisor Fund.

“Advisor Account” means an account directly managed by an Advisor for the Partnership or the Master Partnership.

“Advisor Fund” means an investment company, a general or limited partnership, a limited liability company or other pooled investment vehicle in which the Partnership or the Master Partnership has invested and that is advised by an Advisor; whether or not, in each case, the entity is registered under the 1940 Act, and includes the Master Partnership and Advisor Funds that may be formed by the Partnership.

“Affiliate” means affiliated person as that term is defined in the 1940 Act.

“Agreement” means this Amended and Restated Agreement of Limited Partnership, as amended and/or restated from time to time.

“Board of Directors” means the board of the Directors who have been delegated the authority described in this Agreement.

“Business Day” means any day when the New York Stock Exchange is open for business.

“Capital Account” means, with respect to each Partner, the capital account established and maintained on behalf of the Partner in accordance with Section 5.3 of this Agreement.

“Capital Contribution” means the contribution, if any, made, or to be made, as the context requires, to the capital of the Partnership, after giving effect to any applicable placement agent fees, by a Partner or former Partner, as the case may be.

“Certificate” means the Certificate of Limited Partnership of the Partnership as filed with the office of the Secretary of State of the State of Delaware on July 20, 2006 and any amendments to the Certificate and/or restatements of the Certificate as filed with the office of the Secretary of State of the State of Delaware pursuant to this Agreement.

“Closing Date” means the first date on or as of which a Limited Partner other than the Organizational Limited Partner is admitted to the Partnership.

“Code” means the Internal Revenue Code of 1986, as amended from time to time, or any successor law.

“Commodity Exchange Act” means the Commodity Exchange Act and the rules, regulations and orders under the Commodity Exchange Act, as amended from time to time, or any successor law.

“Delaware Act” means the Delaware Revised Uniform Limited Partnership Act, as amended from time to time, or any successor law.

“Directors” means those natural Persons designated as “Directors” in accordance with this Agreement who are delegated the authority provided for in this Agreement and includes David B. Perkins as the initial Director, or any other natural Persons who, from time to time after the date of this Agreement, become Directors in accordance with the terms and conditions of this Agreement.

“Fiscal Period” means the period commencing on the Closing Date, and thereafter each period commencing on the day immediately following the last day of the immediately preceding Fiscal Period, and ending in each case at the close of business on the first to occur of the following dates:

- (1) the last day of any calendar quarter, including the last day of the calendar year;
- (2) the day preceding the date as of which a contribution to the capital of the Partnership is made by any Partner in accordance with Section 5.1 of this Agreement;
- (3) the day on which the Partnership repurchases Units of any Partner in accordance with Section 4.5 of this Agreement;
- (4) the day as of which the Partnership admits a substituted Partner to whom or which Units of a Partner have been Transferred (unless the Transfer of the Units results in no change of beneficial ownership of the Units);
- (5) the day as of which any amount is credited to or debited against the Capital Account of any Partner, other than an amount that is credited to or debited against the Capital Accounts of all Partners in accordance with their respective Investment Percentages; or
- (6) December 31, or any other date that is the last day of the taxable year of the Partnership.

“Fiscal Year” means the period commencing on the Closing Date and ending on March 31, 2007, and thereafter each period commencing on April 1 of each year and ending on March 31 of that year (or on the date of a final distribution made in accordance with Section 6.2 of this Agreement), unless the Directors designate another fiscal year for the Partnership. The taxable year of the Partnership will end on December 31 of each year, or on any other date designated by the General Partner that is a permitted taxable year-end for tax purposes.

“Form N-2” means the Partnership’s Registration Statement on Form N-2 filed with the Securities and Exchange Commission, as amended from time to time.

“General Partner” means Hatteras Investment Management LLC, a limited liability company formed under the laws of the State of Delaware, and any other Person or Persons

admitted to the Partnership as a general partner of the Partnership, collectively, in their capacities as general partners of the Partnership, and “General Partner” means any of the General Partners. When the term General Partner is used in this Agreement and the Partnership has more than one General Partner, the term “General Partner” will refer to each General Partner.

“Independent Directors” mean those Directors who are not “interested persons” of the Partnership as that term is defined in the 1940 Act.

“Investment Percentage” means a percentage established for each Partner on the Partnership’s books determined by dividing the number of Units owned by such Partner by the number of Units owned by all of the Partners.

“Limited Partner” means any Person admitted to the Partnership as a Limited Partner of the Partnership (including any Person who or that is a General Partner when acting in the Person’s capacity as a Limited Partner) until the Partnership repurchases all of the Units of the Person as a Limited Partner in accordance with Section 4.5 of this Agreement, or a substituted Limited Partner or Partners are admitted with respect to the Person’s Units in accordance with Section 4.4 of this Agreement, in the Person’s capacity as a Limited Partner of the Partnership. For purposes of the Delaware Act, the Limited Partners will constitute a single class or group.

“Master Partnership” means Hatteras Master Fund, L.P., a limited partnership organized under the laws of the State of Delaware and any partnership continuing the business of the Master Partnership after its dissolution.

“Memorandum” means the Partnership’s Confidential Memorandum, as included in the Form N-2, as amended or supplemented from time to time.

“NAV per Unit,” as of a particular date, shall be equal to the Net Assets of the Fund as of such date, divided by the number of Units then outstanding.

“Net Assets” means the total value of all assets of the Partnership, less an amount equal to all accrued debts, liabilities and obligations of the Partnership, calculated before giving effect to any repurchases of Units.

“Net Profit” or “Net Loss” means the amount by which the Net Assets as of the close of business on the last day of a Fiscal Period exceed (in the case of Net Profit) or are less than (in the case of Net Loss) the Net Assets as of the commencement of the same Fiscal Period (or, with respect to the initial Fiscal Period of the Partnership, at the close of business on the Closing Date), the amount of any Net Profit or Net Loss to be adjusted to exclude any items to be allocated among the Capital Accounts of the Partners on a basis that is not in accordance with the Investment Percentages of all Partners as of the commencement of the Fiscal Period in accordance with Section 5.6 of this Agreement.

“Offering Materials” means the Memorandum and subscription materials provided to prospective Limited Partners in connection with an investment to be made in the Partnership.

“Organizational Limited Partner” means David B. Perkins.

“Partners” means the General Partner(s) and the Limited Partners, collectively, and “Partner” means any General Partner or Limited Partner.

“Partnership” means Hatteras Core Alternatives Institutional Fund, L.P. and any partnership continuing the business of the Partnership after dissolution as provided in this Agreement.

“Person” means any individual, entity, corporation, partnership, limited liability company, joint stock company, trust, estate, joint venture, or unincorporated organization.

“Securities” means securities (including, without limitation, equities, debt obligations, options, and other “securities” as that term is defined in Section 2(a)(36) of the 1940 Act) and any contracts for forward or future delivery of any security, debt obligation, currency or commodity, all manner of derivative instruments and any contracts based on any index or group of securities, debt obligations, currencies or commodities, and any options on those contracts.

“Transfer” means the assignment, transfer, sale or other disposition of all or any portion of an Interest, including any right to receive any allocations and distributions attributable to an Interest. Verbs, adverbs or adjectives such as “Transfer,” “Transferred” and “Transferring” have correlative meanings.

“Valuation Date” means any date upon which the net asset value of the Units are valued for purposes of a repurchase, as determined by the Board of Directors.

ARTICLE II

ORGANIZATION; ADMISSION OF PARTNERS; DIRECTORS

SECTION 2.1 Formation of Limited Partnership. (a) The Partnership is formed as a limited partnership pursuant to the Certificate and this Agreement. The Partners agree that their rights, duties and liabilities will be as provided in the Delaware Act, except as otherwise provided in this Agreement. The General Partner will cause the Certificate to be executed and filed in accordance with the Delaware Act and will cause to be executed and filed with applicable governmental authorities any other instruments, documents and certificates that the General Partner concludes may from time to time be required by the laws of the United States of America, the State of Delaware or any other jurisdiction in which the General Partner determines that the Partnership should do business, or any political subdivision or agency of any such jurisdiction, or that the General Partner determines is necessary or appropriate to effectuate, implement and continue the valid existence and business of the Partnership.

(b) The Partnership is formed for the object and purpose of (and the nature of the business to be conducted by the Partnership is) engaging in any lawful activity for which limited partnerships may be formed under the Delaware Act and engaging in any and all activities necessary or incidental to the foregoing.

SECTION 2.2 Name. The name of the Partnership is “Hatteras Core Alternatives Institutional Fund, L.P.” or any other name that the General Partner may adopt after the date of this Agreement upon (a) causing an appropriate amendment to this Agreement to be executed and to the Certificate to be filed in accordance with the Delaware Act and (b) sending notice of the amendment to each Limited Partner.

SECTION 2.3 Principal and Registered Office. The Partnership will have its principal office at the principal office of the General Partner or at any other place designated from time to time by the General Partner. The Partnership’s registered agent in the State of Delaware shall be The Corporation Trust Company, and the Partnership’s registered office in the State of Delaware at Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801 unless the General Partner designates a different registered agent or office from time to time in accordance with the Delaware Act.

SECTION 2.4 Duration. The term of the Partnership will commence on the filing of the Certificate and will continue until the Partnership is dissolved and wound up and the Certificate is canceled in accordance with Section 6.1 of this Agreement.

SECTION 2.5 Business of the Partnership. (a) The business of the Partnership is to purchase, sell, invest and trade in Securities and engage in any financial or derivative transactions relating to Securities. Portions of the Partnership’s assets (which may constitute, in the aggregate, all of the Partnership’s assets) may be invested in Advisor Funds or Advisor Accounts that invest and trade in Securities or in separate managed accounts through which the Partnership may invest and trade in Securities, some or all of which may be advised by one or more Advisors. The Partnership may invest some or all of its assets directly or indirectly in the Master Partnership. The Partnership may execute, deliver and perform all contracts, agreements and other undertakings and engage in all activities and transactions as the General Partner, the Directors or the Investment Manager may deem necessary or advisable to carry out its objective or business.

(b) The Partnership will operate as a closed-end, management investment company in accordance with the 1940 Act and subject to any fundamental policies and investment restrictions described in the Form N-2.

(c) The Partnership may designate from time to time persons to act as signatories for the Partnership, including, without limitation, persons authorized to execute and deliver any filings with the U.S. Securities and Exchange Commission (the “SEC”) or applicable federal or state regulatory authorities or self-regulatory organizations.

SECTION 2.6 General Partner. (a) Hatteras Investment Management LLC shall be admitted to the Partnership as the General Partner upon its execution of this Agreement. The General Partner may admit to the Partnership as an additional General Partner any Person who agrees in writing to be bound by all of the terms of this Agreement as a General Partner. The General Partner may admit to the Partnership as a substituted General Partner any Person to

which it has Transferred its interest as the General Partner in accordance with Section 4.3 of this Agreement. Any substituted General Partner will be admitted to the Partnership upon the Transferring General Partner's consenting to such admission and is authorized to, and will, continue the business of the Partnership without dissolution. The name and mailing address of the General Partner and the Capital Contribution of the General Partner will be reflected on the books and records of the Partnership. If at any time the Partnership has more than one General Partner, unless otherwise provided in this Agreement, any action allowed to be taken, or required to be taken, by the General Partners may be taken only with the unanimous approval of all of the General Partners.

(b) Each General Partner will serve for the duration of the term of the Partnership, unless the General Partner ceases to be a General Partner in accordance with Section 4.1 of this Agreement.

SECTION 2.7 Limited Partners. (a) The General Partner may admit one or more Limited Partners as of the beginning of each calendar month or at such other times as the General Partner may determine. A Person may be admitted to the Partnership as a Limited Partner without having signed this Agreement. This Agreement shall not be unenforceable by reason of it not having been signed by a person being admitted as a Limited Partner. The General Partner, in its sole and absolute discretion, may reject requests to purchase Units in the Partnership. The General Partner may, in its sole discretion, suspend or terminate the offering of the Units at any time. The books and records of the Partnership shall be revised to reflect the name and Capital Contribution of each Limited Partner that is admitted to the Partnership.

(b) Subject to Section 2.10 of this Agreement, when the entire Capital Contribution attributable to Units for which a Partner has subscribed is paid for, those Units will be deemed to be validly issued and fully paid and non-assessable.

SECTION 2.8 Organizational Limited Partner. Upon the admission to the Partnership of any Limited Partner, the Organizational Limited Partner shall withdraw from the Partnership as the Organizational Limited Partner and shall be entitled to the return of his Capital Contribution, if any, without interest or deduction, and shall cease to be a Limited Partner of the Partnership.

SECTION 2.9 Both General and Limited Partner. A Partner may be simultaneously a General Partner and a Limited Partner, in which event the Partner's rights and obligations in each capacity will be determined separately in accordance with the terms and provisions of this Agreement and as provided in the Delaware Act.

SECTION 2.10 Limited Liability. Except for payment obligations under this Agreement, including Capital Contribution obligations, and as provided under applicable law, a Limited Partner will not be liable for the Partnership's obligations in any amount in excess of the Limited Partner's Capital Account balance, plus the Limited Partner's share of

undistributed profits and assets. Subject to applicable law, a Limited Partner may be obligated to return to the Partnership certain amounts distributed to the Limited Partner.

SECTION 2.11 Directors. (a) The number of Directors at the date of this Agreement is fixed at not more than fourteen (14) Directors and no fewer than two (2). After the Closing Date, the number of Directors will be fixed from time to time by the Directors then in office, which number may be greater, or lesser, than fourteen (14), but no fewer than the minimum number of directors permitted to corporations organized under the laws of the State of Delaware, except that no reduction in the number of Directors will serve to effect the removal of any Director. Each Partner approves the delegation by the General Partner to the Directors, in accordance with Section 3.1 of this Agreement, of certain of the General Partner's rights and powers.

(b) The term of office of each Director shall be from the time of such Director's election and qualification until his or her successor shall have been elected and shall have qualified, or until his or her status as a Director is terminated sooner in accordance with Section 2.11(d) of this Agreement. Except to the extent the 1940 Act requires election by Limited Partners, if any vacancy in the position of a Director occurs, including by reason of an increase in the number of Directors as contemplated by Section 2.11(a) of this Agreement, the remaining Directors may appoint an individual to serve in that capacity in accordance with the provisions of the 1940 Act. Independent Directors will at all times constitute at least a majority (or more if required by the 1940 Act) of the Directors then serving. An Independent Director will be replaced by another Independent Director selected and nominated by the remaining Independent Directors, or in a manner otherwise permissible under the 1940 Act.

(c) If no Director remains, the General Partner will promptly call a meeting of the Partners, to be held within 60 days after the date on which the last Director ceased to act in that capacity, for the purpose of determining whether to continue the business of the Partnership and, if the business is to be continued, approving the appointment of the requisite number of Directors. If the Partners determine at the meeting not to continue the business of the Partnership, or if the approval of the appointment of the requisite number of Directors is not approved within 60 days after the date on which the last Director ceased to act in that capacity, then the Partnership will be dissolved in accordance with Section 6.1 of this Agreement and the assets of the Partnership will be liquidated and distributed in accordance with Section 6.2 of this Agreement.

(d) The status of a Director will terminate (1) if the Director dies; (2) if the Director resigns as a Director; or (3) if the Director is removed in accordance with Section 2.11(e) of this Agreement.

(e) Any Director may be removed with or without cause by a vote of a majority of the other Directors or by the vote or written consent of Limited Partners holding not less than two-thirds of the total number of votes eligible to be cast by all Limited Partners.

(f) The Directors may establish and maintain committees of the Board of Directors, and the Directors may grant to such committees the authority to, among other things: value the assets of the Partnership; select and nominate the Independent Directors of the Partnership; recommend to the Board of Directors the compensation to be paid to the Independent Directors; and recommend to the Board of Directors the firm of certified public accountants that will conduct the Partnership's audits.

(g) The Directors may establish or designate committees of the Board of Directors or the Partnership, whose members may include the Directors and/or other Persons who are not Directors, to provide advice and other services to the Partnership, which committees may include (but are not limited to) a committee that will value the assets of the Partnership.

(h) The Independent Directors will receive compensation for their services as Independent Directors, as determined by the Board of Directors.

ARTICLE III

MANAGEMENT; ADVICE AND MANAGEMENT

SECTION 3.1 Management and Control. (a) The General Partner delegates to the Directors those rights and powers of the General Partner necessary for the Directors to manage and control the business affairs of the Partnership and to carry out their oversight obligations with respect to the Partnership required under the 1940 Act, state law, and any other applicable laws or regulations. Rights and powers delegated to the Directors include, without limitation, the authority as Directors to oversee and to establish policies regarding the management, conduct and operation of the Partnership's business, and to do all things necessary and proper as Directors to carry out the objective and business of the Partnership, including, without limitation, the power to engage an investment manager to provide advice and management and to remove such an investment manager, as well as to exercise any other rights and powers expressly given to the Directors under this Agreement. The Partners intend that, to the fullest extent permitted by law, and except to the extent otherwise expressly provided in this Agreement, (1) each Director is vested with the same powers and authority on behalf of the Partnership as are customarily vested in each director of a Delaware corporation and (2) each Independent Director is vested with the same powers and authority on behalf of the Partnership as are customarily vested in each director who is not an "interested person" (as that term is defined in the 1940 Act) of a closed-end, management investment company registered under the 1940 Act that is organized as a Delaware corporation. During any period in which the Partnership has no Directors, the General Partner will manage and control the

Partnership. Each Director will be the agent of the Partnership but will not, for any purpose, be a General Partner. Notwithstanding the delegation described in this Section 3.1(a), the General Partner will not cease to be the General Partner and will continue to be liable as such and in no event will a Director be considered a General Partner by agreement, estoppel or otherwise as a result of the performance of his or her duties under this Agreement or otherwise. The General Partner retains those rights, powers and duties that have not been delegated under this Agreement. Any Director may be admitted to the Partnership in accordance with Section 2.7 of this Agreement and make Capital Contributions and own Units, in which case the Director will also become a Limited Partner.

(b) The Partnership will file a tax return as a Partnership for U.S. federal income tax purposes. All decisions for the Partnership relating to tax matters including, without limitation, whether to make any tax elections (including the election under Section 754 of the Code), the positions to be made on the Partnership's tax returns and the settlement or further contest or litigation of any audit matters raised by the Internal Revenue Service or any other taxing authority, will be made by the Directors. All actions (other than ministerial actions) taken by the tax matters Partner, as designated in Section 3.1(c) below, will be subject to the approval of the Directors.

(c) The General Partner will be the designated tax matters Partner for purposes of the Code. Each Partner agrees not to treat, on his, her or its personal income tax return or in any claim for a refund, any item of income, gain, loss, deduction or credit in a manner inconsistent with the treatment of the item by the Partnership. The tax matters Partner will have the exclusive authority and discretion to make any elections required or permitted to be made by the Partnership under any provisions of the Code or any other revenue laws.

(d) No Limited Partner will have any right to participate in or take any part in the management or control of the Partnership's business, and no Limited Partner will have any right, power or authority to act for or bind the Partnership. Limited Partners will have the right to vote on any matters only as provided in this Agreement or on any matters that require the approval of the holders of voting securities under the 1940 Act and will have no right to exercise any other vote granted to Limited Partners under the Delaware Act, any such rights being vested in the Directors (or the General Partner if there are no Directors) and may be exercised without requiring the approval of the Limited Partners.

SECTION 3.2 Powers Reserved by the General Partner. Notwithstanding anything in this Agreement to the contrary, the General Partner retains all rights, duties and powers to manage the affairs of the Partnership that may not be delegated under Delaware law, and that are not otherwise delegated by the General Partner to the Directors or assumed by any investment manager engaged pursuant to Section 3.1(a) of this Agreement or any other Person under the terms of any agreement between the Partnership and such investment manager or

any other Person. Specifically, and without limitation, the General Partner will retain full power and authority on behalf of and in the name of the Partnership:

- (1) to issue to any Partner an instrument certifying that the Partner is the owner of Units;
- (2) to call and conduct meetings of Partners at the Partnership's principal office or elsewhere as it may determine, and to assist the Directors in calling and conducting meetings of the Directors;
- (3) to engage and terminate attorneys, accountants (subject to the provisions of the 1940 Act) and other professional advisers and consultants as the General Partner deems necessary or advisable in connection with the affairs of the Partnership or as may be directed by the Directors;
- (4) to act as tax matters Partner in accordance with Section 3.1(c) of this Agreement, and to assist in the preparation and filing of any required tax or information returns to be made by the Partnership;
- (5) as directed by the Directors, to commence, defend and conclude any action, suit, investigation or other proceeding that pertains to the Partnership or any assets of the Partnership;
- (6) as directed by the Directors, to arrange for the purchase of any insurance covering the potential liabilities of the Partnership or relating to the performance of the Directors, the General Partner, any investment manager engaged pursuant to Section 3.1(a) of this Agreement or any of their principals, Partners, directors, officers, members, employees and agents;
- (7) to execute, deliver and perform any contracts, agreements and other undertakings, and to engage in activities and transactions that are necessary or appropriate for the conduct of the business of the Partnership and to bind the Partnership by those contracts, agreements, and other undertakings, provided that any persons approved as officers of the Partnership pursuant to Section 3.3(c) of this Agreement, as directed by the Directors, may execute and deliver contracts and agreements on behalf of the Partnership and bind the Partnership to those contracts and agreements;
- (8) to make determinations regarding subscriptions for and/or the Transfer of Units, including, without limitation, determinations regarding the suspension of subscriptions, and to execute, deliver and perform subscription agreements, selling agreements relating to the sale of Units, administration agreements appointing an administrator to perform various administrative action on behalf of the Partnership, escrow agreements and custodial agreements without the consent of or notice to any other Person, notwithstanding any other provision of this Agreement;

(9) to make determinations regarding appropriate reserves to be created for the contingent, conditional or unmatured liabilities of the Partnership;

(10) as provided in Section 7.2 of this Agreement, to make determinations regarding adjustments to the computation of Net Profit or Net Loss and allocations among the Partners under Article V of this Agreement;

(11) to manage or oversee the general administrative and operational aspects of the Partnership; and

(12) as directed by the Directors, to establish additional classes of Limited Partners, General Partners, or Units having separate rights, powers, or duties with respect to specified property or obligations of the Partnership or profits or losses associated with specified property or obligations of the Partnership, and having separate business purposes or investment objectives as the Directors may determine, consistent with the 1940 Act and the Delaware Act, so long as the assets and liabilities of one class is limited to the assets and liabilities of such class.

SECTION 3.3 Actions by Directors. (a) Unless provided otherwise in this Agreement, the Directors will act only: (1) by the affirmative vote of a majority of the Directors (which majority will include any requisite number of Independent Directors required by the 1940 Act) present at a meeting duly called at which a quorum of the Directors is present either in person or, to the extent consistent with the provisions of the 1940 Act, by conference telephone or other communications equipment by means of which all Persons participating in the meeting can hear each other; or (2) by unanimous written consent of all of the Directors without a meeting, if permissible under the 1940 Act. A majority of the Directors then in office will constitute a quorum at any meeting of Directors.

(b) The Directors may designate from time to time a Director or any person approved as an officer of the Partnership pursuant to Section 3.3(c) of this Agreement or the General Partner who will preside at all meetings. Meetings of the Directors may be called by the General Partner, the Chairman of the Board of Directors, or any two Directors, and may be held on any date and at any time and place determined by the Directors. Each Director will be entitled to receive written notice of the date, time and place of a meeting within a reasonable time in advance of the meeting. Notice need not be given to any Director who attends a meeting without objecting to the lack of notice or who executes a written waiver of notice with respect to the meeting.

(c) The Directors may appoint from time to time agents and employees of the Partnership who will have the same powers and duties on behalf of the Partnership as are customarily vested in officers of a corporation incorporated under Delaware law, or such other powers and duties as may be designated by

the Directors, in their sole discretion, and designate them as officers or agents of the Partnership by resolution of the Directors specifying their titles or functions.

SECTION 3.4 Meetings of Partners. (a) Actions requiring the vote of the Partners may be taken at any duly constituted meeting of the Partners at which a quorum is present or by means of a written consent. Meetings of the Partners may be called by the General Partner, by the affirmative vote of a majority of Directors then in office, or by Partners holding at least a majority of the total number of votes eligible to be cast by all Partners, and may be held at any time, date and place determined by the General Partner in the case of meetings called by the General Partner or the Partners and at any time, date and place determined by the Directors in the case of meetings called by the Directors. In each case, the General Partner will provide notice of the meeting, stating the date, time and place of the meeting and the record date for the meeting, to each Partner entitled to vote at the meeting within a reasonable time prior to the meeting. Failure to receive notice of a meeting on the part of any Partner will not affect the validity of any act or proceeding of the meeting, so long as a quorum is present at the meeting. Except as otherwise required by applicable law, only matters set out in the notice of a meeting may be voted on by the Partners at the meeting. The presence in person or by proxy of Partners holding a majority of the total number of votes eligible to be cast by all Partners as of the record date will constitute a quorum at any meeting of Partners. In the absence of a quorum, a meeting may be adjourned to the time or times as determined by the General Partner and communicated to the Directors in the manner described above in this Section 3.4(a). Except as otherwise required by any provision of this Agreement or of the 1940 Act, (1) those candidates receiving a plurality of the votes cast at any meeting of Partners called pursuant to Section 2.11(c) of this Agreement or elected pursuant to the requirement of Section 2.11(b) will be elected as Directors and (2) all other actions of the Partners taken at a meeting will require the affirmative vote of Partners holding a majority of the total number of votes eligible to be cast by those Partners who are present in person or by proxy at the meeting.

(b) Each Partner will be entitled to cast at any meeting of Partners or pursuant to written consent a number of votes equivalent to the Partner's Investment Percentage as of the record date for the meeting or the date of the written consent. The General Partner will establish a record date not less than 10 nor more than 60 days prior to the date of any meeting of Partners or mailing (including by electronic transmission) to the Partners of any written consent, to determine eligibility to vote at the meeting and the number of votes that each Partner will be entitled to cast at the meeting, and will maintain for each record date a list setting out the name of each Partner and the number of votes that each Partner will be entitled to cast at the meeting.

(c) A Partner may vote at any meeting of Partners by a properly executed proxy transmitted to the Partnership at any time at or before the time of the meeting by telegram, telecopier or other means of electronic communication or other readable reproduction as contemplated by the provisions relating to

proxies applicable to corporations incorporated under the laws of Delaware now or in the future in effect. A proxy may be suspended or revoked, as the case may be, by the Partner executing the proxy by a later writing delivered to the Partnership at any time prior to exercise of the proxy or if the Partner executing the proxy is present at the meeting and votes in person. Any action of the Partners that is permitted to be taken at a meeting of the Partners may be taken without a meeting if consents in writing, setting out the action to be taken, are signed by Partners holding a majority of the total number of votes eligible to be cast or any greater percentage as may be required under this Agreement to approve the action.

SECTION 3.5 Custody of Assets of the Partnership. (a) Notwithstanding anything to the contrary in this Agreement, the General Partner will not have any authority to hold or have possession or custody of any funds, Securities or other property of the Partnership. The physical possession of all funds, Securities or other property of the Partnership will at all times be held, controlled and administered by one or more custodians retained by the Partnership. The General Partner will have no responsibility, other than that associated with the oversight and supervision of custodians retained by the Partnership, with respect to the collection of income or the physical acquisition or safekeeping of the funds, Securities or other property of the Partnership, all duties of collection, physical acquisition or safekeeping being the sole obligation of such custodians.

(b) With respect to any Advisor Fund securities held by the Partnership as of the date on which the Partnership becomes registered with the SEC as an investment company under the 1940 Act, and during any period of time in which the Partnership remains so registered, such securities shall be under the control of one or more of the Partnership's custodian(s), as may be engaged from time to time, pursuant to Section 17(f) of the 1940 Act and the rules thereunder, and no person shall be authorized or permitted to have access to such securities except in accordance with Section 17(f) of the 1940 Act and the rules thereunder, and consistent with the terms of the Partnership's agreement with the relevant Partnership custodian.

SECTION 3.6 Other Activities. (a) Neither the General Partner nor its principals, Partners, directors, officers, members, employees and beneficial owners nor the Directors will be required to devote full time to the affairs of the Partnership, but each will devote such time as each may reasonably be required to perform its obligations under this Agreement and under the 1940 Act.

(b) The Directors, any Partner, and any Affiliate of any Partner may engage in or possess an interest in other business ventures or commercial dealings of every kind and description, independently or with others, including, but not limited to, acquisition and disposition of Securities, provision of investment advisory or brokerage services, serving as directors, officers, employees, advisors or agents of other companies, Partners of any Partnership,

members of any limited liability company, or trustees of any trust, or entering into any other commercial arrangements. No Partner will have any rights in or to such activities of any other Partner, the Directors or any Affiliate of any Partner or any profits derived from these activities.

(c) The General Partner and its principals, Partners, directors, officers, members, employees and beneficial owners and the Directors, from time to time may acquire, possess, manage, hypothecate and dispose of Securities or other investment assets, and engage in any other investment transaction for any account over which they exercise discretionary authority, including their own accounts, the accounts of their families, the account of any entity in which they have a beneficial interest or the accounts of others for whom or which they may provide investment advisory or other services.

(d) To the extent that at law or in equity the Directors or the General Partner have duties (including fiduciary duties) and liabilities relating to those duties to the Partnership or to any other Partner or other Person bound by this Agreement, any such Person acting under this Agreement will not be liable to the Partnership or to any other Partner or other Person bound by this Agreement for its good faith reliance on the provisions of this Agreement. The provisions of this Agreement, to the extent that they restrict the duties and liabilities of the General Partner or the Directors otherwise existing at law or in equity, are agreed by the Partners to replace the other duties and liabilities of the General Partner or the Directors.

SECTION 3.7 Duty of Care. (a) The Directors and the General Partner, including any officer, director, Partner, member, principal, employee or agent of any of them, will not be liable to the Partnership or to any of its Partners for any loss or damage occasioned by any act or omission in the performance of the Person's services under this Agreement, in the absence of a final judicial decision on the merits from which no further right to appeal may be taken that the loss is due to an act or omission of the Person constituting willful misfeasance, bad faith, gross negligence or reckless disregard of the Person's duties under this Agreement.

(b) No Director who has been designated an "audit committee financial expert" (for purposes of Section 407 of the Sarbanes-Oxley Act of 2002 or any successor provision thereto, and any rules issued thereunder by the SEC) in the Partnership's Form N-2 or other reports required to be filed with the SEC shall be subject to any greater duty of care in discharging such Director's duties and responsibilities by virtue of such designation than is any Director who has not been so designated.

(c) Limited Partners not in breach of any obligation under this Agreement or under any agreement pursuant to which the Limited Partner subscribed for Units will be liable to the Partnership, any Partner or third parties only as required by this Agreement or applicable law.

SECTION 3.8 Indemnification. (a) To the fullest extent permitted by law, the Partnership will, subject to Section 3.8(c) of this Agreement, indemnify each General Partner (including for this purpose each officer, director, member, Partner, principal, employee or agent of, or any Person who controls, is controlled by or is under common control with, a General Partner (including, without limitation, Hatteras Investment Partners, LLC) or Partner of a General Partner, and their executors, heirs, assigns, successors or other legal representatives) and each Director (and his executors, heirs, assigns, successors or other legal representatives) (each such Person being referred to as an “indemnitee”) against all losses, claims, damages, liabilities, costs and expenses arising by reason of being or having been a General Partner or Director of the Partnership, or the past or present performance of services to the Partnership by the indemnitee, except to the extent that the loss, claim, damage, liability, cost or expense has been finally determined in a judicial decision on the merits from which no further right to appeal may be taken in any such action, suit, investigation or other proceeding to have been incurred or suffered by the indemnitee by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of the indemnitee’s office. These losses, claims, damages, liabilities, costs and expenses include, but are not limited to, amounts paid in satisfaction of judgments, in compromise, or as fines or penalties, and counsel fees and expenses incurred in connection with the defense or disposition of any action, suit, investigation or other proceeding, whether civil or criminal, before any judicial, arbitral, administrative or legislative body, in which the indemnitee may be or may have been involved as a party or otherwise, or with which such indemnitee may be or may have been threatened, while in office or thereafter. The rights of indemnification provided under this Section 3.8 are not to be construed so as to provide for indemnification of an indemnitee for any liability (including liability under U.S. Federal securities laws which, under certain circumstances, impose liability even on Persons that act in good faith) to the extent (but only to the extent) that indemnification would be in violation of applicable law, but will be construed so as to effectuate the applicable provisions of this Section 3.8.

(b) Expenses, including counsel fees and expenses, incurred by any indemnitee (but excluding amounts paid in satisfaction of judgments, in compromise, or as fines or penalties) may be paid from time to time by the Partnership in advance of the final disposition of any action, suit, investigation or other proceeding upon receipt of an undertaking by or on behalf of the indemnitee to repay to the Partnership amounts paid if a determination is made that indemnification of the expenses is not authorized under Section 3.8(a) of this Agreement, so long as (1) the indemnitee provides security for the undertaking, (2) the Partnership is insured by or on behalf of the indemnitee against losses arising by reason of the indemnitee’s failure to fulfill his, her or its undertaking, or (3) a majority of the Independent Directors (excluding any Director who is either seeking advancement of expenses under this Agreement or is or has been a party to any other action, suit, investigation or other proceeding involving claims similar to those involved in the action, suit, investigation or proceeding giving rise to a claim for advancement of expenses

under this Agreement) or independent legal counsel in a written opinion determines, based on a review of readily available facts (as opposed to a full trial-type inquiry), that reason exists to believe that the indemnitee ultimately will be entitled to indemnification.

(c) As to the disposition of any action, suit, investigation or other proceeding (whether by a compromise payment, pursuant to a consent decree or otherwise) without an adjudication or a decision on the merits by a court, or by any other body before which the proceeding has been brought, that an indemnitee is liable to the Partnership or its Partners by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of the indemnitee's office, indemnification will be provided in accordance with Section 3.8(a) of this Agreement if (1) approved as in the best interests of the Partnership by a majority of the Independent Directors (excluding any Director who is either seeking indemnification under this Agreement or is or has been a party to any other action, suit, investigation or proceeding involving claims similar to those involved in the action, suit, investigation or proceeding giving rise to a claim for indemnification under this Agreement) upon a determination, based upon a review of readily available facts (as opposed to a full trial-type inquiry), that the indemnitee acted in good faith and in the reasonable belief that the actions were in the best interests of the Partnership and that the indemnitee is not liable to the Partnership or its Partners by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of the indemnitee's office, or (2) the Directors secure a written opinion of independent legal counsel, based upon a review of readily available facts (as opposed to a full trial-type inquiry), to the effect that indemnification would not protect the indemnitee against any liability to the Partnership or its Partners to which the indemnitee would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of the indemnitee's office.

(d) Any indemnification or advancement of expenses made in accordance with this Section 3.8 will not prevent the recovery from any indemnitee of any amount if the indemnitee subsequently is determined in a final judicial decision on the merits in any action, suit, investigation or proceeding involving the liability or expense that gave rise to the indemnification or advancement of expenses to be liable to the Partnership or its Partners by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of the indemnitee's office. In any suit brought by an indemnitee to enforce a right to indemnification under this Section 3.8, it will be a defense that the indemnitee has not met the applicable standard of conduct described in this Section 3.8. In any suit in the name of the Partnership to recover any indemnification or advancement of expenses made in accordance with this Section 3.8, the Partnership will be entitled to recover the expenses

upon a final adjudication from which no further right of appeal may be taken. In any suit brought to enforce a right to indemnification or to recover any indemnification or advancement of expenses made in accordance with this Section 3.8, the burden of proving that the indemnitee is not entitled to be indemnified, or to any indemnification or advancement of expenses, under this Section 3.8 will be on the Partnership (or any Partner acting derivatively or otherwise on behalf of the Partnership or its Partners).

(e) An indemnitee may not satisfy any right of indemnification or advancement of expenses granted in this Section 3.8 or to which he, she or it may otherwise be entitled except out of the assets of the Partnership, and no Partner will be personally liable with respect to any such claim for indemnification or advancement of expenses.

(f) The rights of indemnification provided in this Section 3.8 will not be exclusive of or affect any other rights to which any Person may be entitled by contract or otherwise under law. Nothing contained in this Section 3.8 will affect the power of the Partnership to purchase and maintain liability insurance on behalf of any General Partner, any Director, the Investment Manager or other Person.

(g) The General Partner may enter into agreements indemnifying Persons providing services to the Partnership to the same, lesser or greater extent as set out in this Section 3.8.

SECTION 3.9 Fees, Expenses and Reimbursement. (a) The Partnership will compensate each Independent Director for his or her services rendered in connection with the Partnership as may be agreed to by the Independent Directors and the General Partner, and as described in the Memorandum. In addition, the Partnership will reimburse the Directors for reasonable out-of-pocket expenses incurred by them in performing their duties with respect to the Partnership.

(b) The Partnership will bear all expenses incurred in connection with its business. Expenses to be borne by the Partnership include, but are not limited to, the following:

(1) The Partnership's pro rata share of the management fee, performance allocation and other fees and expenses, of the Master Partnership;

(2) all investment-related expenses, including, but not limited to, fees paid and expenses reimbursed, directly or indirectly, to Advisors (including management fees, performance or incentive fees or allocations and redemption or withdrawal fees, however titled or structured), all costs and expenses directly related to portfolio transactions and positions for the Partnership's account, such as direct and indirect expenses associated with

the Partnership's investments, including its investments in Advisor Funds (whether or not consummated), and enforcing the Partnership's rights in respect of such investments, transfer taxes and premiums, taxes withheld on non-U.S. dividends, costs and fees for data and software (including software providers and dedicated software employed by the Partnership and designed to assist an investment manager to keep track of the investments in the Advisor Funds and Advisor Accounts), research expenses, professional fees (including, without limitation, the fees and expenses of consultants, attorneys and experts) and, if applicable, in connection with the Partnership's temporary or cash management investments, brokerage commissions, interest and commitment fees on loans and debit balances, borrowing charges on Securities sold short, dividends on Securities sold but not yet purchased and margin fees;

(3) costs associated with the registration of the Partnership, including the costs of compliance with any applicable U.S. federal and state laws;

(4) a servicing fee to be paid to the servicing agent;

(5) any non-investment-related interest expense;

(6) attorneys' fees and disbursements associated with preparing and updating any Offering Materials and with reviewing subscription materials in connection with qualifying prospective investors or prospective holders of Transferred Units;

(7) fees and disbursements of any accountants engaged by the Partnership, and expenses related to the annual audit of the Partnership and compliance with any applicable U.S. Federal or state laws;

(8) fees paid and out-of-pocket expenses reimbursed to the Partnership's administrator;

(9) recordkeeping, accounting, escrow, and custody fees and expenses;

(10) the costs of an errors and omissions/directors' and officers' liability insurance policy and a fidelity bond;

(11) the costs of preparing and mailing reports and other communications, including proxy, tender offer correspondence or similar materials, to Limited Partners;

(12) fees of Independent Directors and travel expenses of Directors relating to meetings of the Board of Directors and committees thereof, and costs and expenses of holding meetings of the Board of Directors and meetings of the Partners;

(13) all costs and charges for equipment or services used in preparing or communicating information regarding the Partnership's transactions or the valuation of its assets between the General Partner and any custodian, administrator or other agent engaged by the Partnership;

(14) any extraordinary expenses, including indemnification expenses as provided for in Section 3.8 of this Agreement;

(15) the Fund's proportionate share of the fees and expenses of the Master Partnership and the fees and expenses of the Advisor Funds and Advisor Accounts (borne indirectly by the Fund through its investment in the Master Partnership);

(16) any other expenses as may be approved from time to time by the Directors, other than those required to be borne by an investment manager or the General Partner; and

(17) the organizational and offering expenses of the Partnership which will initially be borne by Hatteras Investment Partners, LLC or an affiliate thereof and will be expensed by the Partnership upon commencement of operations. The Partnership will account for these expenditures, through monthly expense allocations (or at such other frequency or times as the Board of Directors may direct) to Limited Partners' Capital Accounts, for a period not to exceed the first sixty months after the Closing Date. The amount of each such expense allocation to the Limited Partners' Capital Accounts will be determined by the Directors and Hatteras Investment Partners, LLC and will equal an amount sufficient to reimburse the Investment Manager or affiliate thereof within a sixty-month period.

(c) The General Partner will be entitled to reimbursement from the Partnership for any of the above expenses that it pays on behalf of the Partnership, other than as provided in Section 3.9(b)(14) above.

ARTICLE IV

TERMINATION OF STATUS OF GENERAL PARTNER; REMOVAL OF GENERAL PARTNER; TRANSFERS AND REPURCHASES

SECTION 4.1 Termination of Status of General Partner. A General Partner will cease to be a general partner of the Partnership if the General Partner (a) is dissolved or otherwise terminates its existence; (b) voluntarily withdraws as General Partner (which it may do at any time in its sole discretion); (c) is removed; (d) Transfers all of its Units held as General Partner as permitted under Section 4.3 of this Agreement and the Person to which the Units are Transferred is admitted as a substituted General Partner under Section 2.6(a) of this Agreement; or (e) otherwise ceases to be a General Partner under the Delaware Act.

SECTION 4.2 Removal of General Partner. Any General Partner may be removed by the vote or written consent of Partners holding not less than 80% of the total number of votes eligible to be cast by all Partners.

SECTION 4.3 Transfer of Units of General Partner. A General Partner may not Transfer all or any of its Units held as the General Partner except to Persons who have agreed to be bound by all of the terms of this Agreement and applicable law. If a General Partner Transfers all of its Units held as General Partner, it will not cease to be a General Partner unless and until the transferee is admitted to the Partnership as a substituted General Partner pursuant to Section 2.6(a) of this Agreement. In executing this Agreement, each Partner is deemed to have consented to any Transfer contemplated by this Section 4.3.

SECTION 4.4 Transfer of Units of Limited Partners. (a) Any Units or portion of any Units held by a Limited Partner may be Transferred only (1) by operation of law pursuant to the death, bankruptcy, insolvency, adjudicated incompetence, or dissolution of the Limited Partner; or (2) under certain limited instances set out in this Agreement, with the written consent of the General Partner (which may be withheld in the General Partner's sole and absolute discretion). Unless the Partnership consults with legal counsel to the Partnership and counsel confirms that the Transfer will not cause the Partnership to be treated as a "publicly traded partnership" taxable as a corporation, however, the General Partner may not consent to a Transfer unless the following conditions are met: (i) the Transferring Limited Partner has been a Limited Partner for at least six months; (ii) the proposed Transfer is to be made on the effective date of an offer by the Partnership to repurchase Units; and (iii) the Transfer is (A) one in which the tax basis of the Units in the hands of the transferee is determined, in whole or in part, by reference to its tax basis in the hands of the Transferring Limited Partner (e.g., certain Transfers to affiliates, gifts and contributions to family entities), (B) to members of the Transferring Limited Partner's immediate family (siblings, spouse, parents and children), or (C) a distribution from a qualified retirement plan or an individual retirement account. In addition, the General Partner may not consent to a Transfer unless the Person to whom or which Units are Transferred (or each of the Person's equity owners if the Person is a "private investment company" as defined in Rule 205-3(d)(3) under the Advisers Act, an investment company registered under the 1940 Act, or a business development company as defined under the Advisers Act) is a Person whom or which the General Partner believes meets the requirements of paragraph (d)(1) of Rule 205-3 under the Advisers Act or successor provision of any of those rules, or is otherwise exempt from the requirements of those rules. In the event that other investor eligibility requirements are established by the Partnership, the Person to whom or which Units are Transferred must satisfy these other requirements. If any transferee does not meet the investor eligibility requirements described in this Section 4.4(a), the General Partner may not consent to the Transfer. In addition, no Limited Partner will be permitted to Transfer his, her or its Units unless after the Transfer the balance of the Capital Account of the transferee, and of the Limited Partner Transferring less than all of such Partner's Units, is at least equal to the amount of the Limited Partner's initial Capital Contribution. Any permitted transferee will be entitled to the allocations and distributions allocable to the Units so acquired and to Transfer the Units in accordance with the terms of this Agreement, but will not be entitled to the other rights of a Limited Partner unless and until

the transferee becomes a substituted Limited Partner. If a Limited Partner Transfers Units with the approval of the General Partner, the General Partner will promptly take all necessary actions so that each transferee or successor to whom or to which the Units are Transferred is admitted to the Partnership as a Limited Partner. The admission of any transferee as a substituted Limited Partner will be effective upon the execution and delivery by, or on behalf of, the substituted Limited Partner of this Agreement or an instrument that constitutes the execution and delivery of this Agreement. Each Limited Partner and transferee agrees to pay all expenses, including attorneys' and accountants' fees, incurred by the Partnership in connection with any Transfer. In connection with any request to Transfer Units, the Partnership may require the Limited Partner requesting the Transfer to obtain, at the Limited Partner's expense, an opinion of counsel selected by the General Partner as to such matters as the General Partner may reasonably request. If a Limited Partner Transfers all of its Units, it will not cease to be a Limited Partner unless and until the transferee is admitted to the Partnership as a substituted Limited Partner in accordance with this Section 4.4(a).

(b) Each Limited Partner will indemnify and hold harmless the Partnership, the General Partner, the Directors, each other Limited Partner and any Affiliate of the Partnership, the General Partner (including, without limitation, Hatteras Investment Partners, LLC), the Director and each of the other Limited Partners against all losses, claims, damages, liabilities, costs and expenses (including legal or other expenses incurred in investigating or defending against any losses, claims, damages, liabilities, costs and expenses or any judgments, fines and amounts paid in settlement), joint or several, to which these Persons may become subject by reason of or arising from (1) any Transfer made by the Limited Partner in violation of this Section 4.4(b) and (2) any misrepresentation by the Transferring Limited Partner or substituted Limited Partner in connection with the Transfer. A Limited Partner Transferring Units may be charged reasonable expenses, including attorneys' and accountants' fees, incurred by the Partnership in connection with the Transfer.

SECTION 4.5 Repurchase of Units. (a) Except as otherwise provided in this Agreement, no Partner or other Person holding Units will have the right to withdraw or tender for repurchase any of its Units. The Directors may, from time to time, in their complete and exclusive discretion and on terms and conditions as they may determine, cause the Partnership to repurchase Units in accordance with written tenders. The Partnership will not offer, however, to repurchase Units on more than four occasions during any one Fiscal Year, unless the Partnership has been advised by its legal counsel that more frequent offers would not cause any adverse tax consequences to the Partnership or the Partners. In determining whether to cause the Partnership to repurchase Units, pursuant to written tenders, the Directors will consider the following factors, among others:

- (1) whether any Partners have requested to tender Units;
- (2) the liquidity of the Partnership's assets (including fees and costs associated with withdrawing from Advisor Funds);

- (3) the investment plans and working capital and reserve requirements of the Partnership;
- (4) the relative economies of scale with respect to the size of the Partnership;
- (5) the history of the Partnership in repurchasing Units;
- (6) the availability of information as to the value of the Partnership's interests in the Advisor Funds and Advisor Accounts;
- (7) existing conditions of the securities markets and the economy generally, as well as political, national or international developments or current affairs;
- (8) the anticipated tax consequences to the Partnership of any proposed repurchases of Units;
- (9) and the recommendations of the General Partner.

The Directors will cause the Partnership to repurchase Units in accordance with written tenders only on terms fair to the Partnership and to all Partners and Persons holding Units acquired from Partners.

(b) Upon the commencement of an offer to repurchase Units, the Partnership will send an advance notification of the offer (the "Notice") to the Partners via their financial intermediaries. The Notice will specify, among other things:

- (1) the number of Units that the Partnership is offering to repurchase;
- (2) the date on which a Partner's repurchase request is due;
- (3) the Valuation Date (as defined in Section 4.5(d) below) applicable to the repurchase offer;
- (4) the date the proceeds from their Unit sales shall be due to the Partners; and
- (5) the NAV per Unit as of the date of the Notice.

(c) In no event will more than 20% of the Units of the Partnership be repurchased per quarter. A Partner who has been a Partner for less than 12 consecutive months prior to the Valuation Date of such repurchase offer, may participate in such offer subject to a penalty of up to 5% of the amount

requested to be repurchased (to be netted against withdrawal proceeds). The minimum value of a repurchase is \$50,000, subject to the discretion of the General Partner to allow otherwise. A Partner whose Units are repurchased by the Partnership will not be entitled to a return of any placement fee that was charged in connection with the Partner's purchase of the Units.

(d) Units are expected to be repurchased at their net asset value determined as of approximately June 30, September 30, December 31 and March 31, as applicable (each such date, a "Valuation Date"). Partners tendering Units for repurchase shall provide written notice of their intent to so tender by the date specified in the Notice, which date shall be approximately 65 days prior to the date of repurchase by the Partnership. Partners tendering their Units may not have all such Units accepted for repurchase by the Partnership. The Partnership may elect to repurchase less than the full amount a Partner requests to be repurchased. If a repurchase offer is oversubscribed, the Partnership may repurchase only a pro rata portion of the amount tendered by each Partner.

(e) The Directors may under certain circumstances elect to postpone, suspend or terminate an offer to repurchase Units.

(f) A Limited Partner tendering only some of its Units for repurchase will be required to maintain a minimum capital account balance of \$100,000. The Partnership may reduce the number of Units to be purchased from a Limited Partner to maintain the required minimum balance. Such minimum balance requirement may be waived by the General Partner in its sole discretion, subject to applicable federal securities laws. Additionally, the General Partner may, in its discretion, cause the Partnership to repurchase all of a Limited Partner's Units if the Limited Partner's Capital Account balance in the Partnership, as a result of repurchase or Transfer requests by the Limited Partner, is less than \$100,000 or such other minimum amount established by the General Partner from time to time in its sole discretion.

(g) Except as provided in Section 4.5(h) of this Agreement, a General Partner may tender its Units under Section 4.5(a) of this Agreement only if and to the extent that (1) the repurchase would not cause the value of the Capital Account of the General Partner to be less than the value required to be maintained under Section 5.1(b) of this Agreement and (2) in the view of legal counsel to the Partnership, the repurchase would not jeopardize the classification of the Partnership as a partnership for U.S. federal income tax purposes.

(h) If a General Partner ceases to serve in that capacity under Section 4.1 of this Agreement (other than pursuant to Section 4.1(i)) and the business of the Partnership is continued in accordance with

Section 6.1(a)(2)(B) of this Agreement, the former General Partner (or its trustee or other legal representative) may, by written notice to the Directors within 60 days of the action resulting in the continuation of the Partnership under Section 6.1(a)(2)(B), tender to the Partnership all or any of its Units. Within 30 days after the receipt of notice, the Directors will cause the Units to be repurchased by the Partnership for cash in an amount equal to the balance of the former General Partner's Capital Account or applicable portion of the Capital Account. If the former General Partner does not tender to the Partnership all of its Units as permitted by this Section 4.5(h), the Units will automatically convert to and will be treated in all respects as the Units of a Limited Partner. If the General Partner ceases to serve in this capacity under Section 4.1 of this Agreement (other than pursuant to Section 4.1(i)) and the Partnership is not continued under Section 6.1(a)(2)(B) of this Agreement, the liquidation and distribution provisions of Article VI of this Agreement will apply to the General Partner's Units.

(i) The General Partner may cause the Partnership to repurchase Units of a Limited Partner or any Person acquiring Units from or through a Limited Partner, on terms fair to the Partnership and to the Limited Partner or Person acquiring Units from or through such Limited Partner, in the event that the General Partner, in its sole discretion, determines or has reason to believe that:

(1) the Units have been Transferred in violation of Section 4.4 of this Agreement, or the Units have vested in any Person other than by operation of law as the result of the death, dissolution, bankruptcy, insolvency or adjudicated incompetence of the Limited Partner;

(2) ownership of Units by a Partner or other Person is likely to (A) cause the Partnership to be in violation of, or (B) (x) require registration of any Units under, or (y) subject the Partnership to additional registration or regulation under, the securities, commodities or other laws of the United States or any other relevant jurisdiction;

(3) continued ownership of the Units may be harmful or injurious to the business or reputation of the Partnership, the Directors, the General Partner or any of their Affiliates, or may subject the Partnership or any of the Partners to an undue risk of adverse tax or other fiscal or regulatory consequences;

(4) any of the representations and warranties made by a Partner or other Person in connection with the acquisition of the Units was not true when made or has ceased to be true;

(5) with respect to a Limited Partner subject to special regulatory or compliance requirements, such as those imposed by ERISA, the Bank Holding Company Act or certain Federal Communication Commission

regulations (collectively, “Special Laws or Regulations”), such Limited Partner will likely be subject to additional regulatory or compliance requirements under these Special Laws or Regulations by virtue of continuing to hold Units;

(6) or it would be in the best interests of the Partnership, as determined by the General Partner or the Directors, for the Partnership to repurchase the Units.

(j) Payments for accepted repurchases of Units of less than 95% of a Partner’s Units generally will be paid approximately 90 days after the Valuation Date (after adjusting for fees, expenses, reserves or other allocations or repurchase) and will be subject to adjustment within 45 days after completion of the annual audit of the Partnership for the applicable Fiscal Year. Such annual audit may be delayed in the event that information necessary to complete the annual audit is not received on a timely basis from the Master Partnership or the Advisors. Payments for accepted repurchases of Units for 95% or more of a Partner’s Units may be paid in two installments. Payment of an amount equal to at least 95% of the Units repurchased (after adjusting for fees, expenses, reserves or other allocations or repurchase) generally will be made approximately 90 days after the Valuation Date. Final settlement of payments in connection with the repurchased Units generally will be made within 45 days after completion of the annual audit of the Partnership for the applicable Fiscal Year. Payments in connection with repurchased Units may be delayed if such information is delayed. Notwithstanding anything to the contrary in this Section 4.5(j), the Directors, in their discretion, may cause the Partnership to pay all or any portion of the repurchase price in Securities (or any combination of Securities and cash) having a value, determined as of the date of repurchase, equal to the amount to be repurchased. All repurchases of Units will be subject to any and all conditions as the Directors may impose in their sole discretion. The General Partner may, in its discretion, cause the Partnership to repurchase all of a Limited Partner’s Units, if the Limited Partner’s Capital Account balance in the Partnership, as a result of repurchase or Transfer requests by the Limited Partner, is less than a minimum amount that may be established by the General Partner from time to time in its sole discretion. Subject to the procedures of this Section 4.5(j), the amount due to any Partner whose Units are repurchased will be equal to the value of the Partner’s Capital Account or portion of such Capital Account, as of the applicable Valuation Date, after giving effect to all allocations to be made to the Partner’s Capital Account as of that date. If all of a Limited Partner’s Units are repurchased, that Limited Partner will cease to be a Limited Partner.

ARTICLE V

CAPITAL

SECTION 5.1 Contributions to Capital. (a) The minimum initial Capital Contribution of each Limited Partner will be \$100,000 or such other amount as the General Partner determines from time to time. The amount of the initial Capital Contribution of each Partner will be recorded by the Partnership upon acceptance as a contribution to the capital of the Partnership. Each Limited Partner's entire initial Capital Contribution will be paid to the Partnership immediately prior to the Partnership's acceptance of the Limited Partner's subscription for Units, unless otherwise agreed by the Partnership and such Limited Partner.

(b) The Limited Partners may make additional Capital Contributions effective as of those times and in amounts as the General Partner may permit, but no Limited Partner will be obligated to make any additional Capital Contribution except to the extent provided in Sections 5.4 and 5.5 of this Agreement. Each additional Capital Contribution made by a Limited Partner (other than a contribution made pursuant to Section 5.3 or Section 5.5 of this Agreement) will be in the minimum amount of \$25,000 or such other amount as the General Partner determines from time to time.

(c) A General Partner may make additional Capital Contributions effective as of those times and in such amounts as it determines, and will be required to make additional Capital Contributions from time to time to the extent necessary to maintain the balance of its Capital Account at an amount, if any, necessary to ensure that the Partnership will be treated as a Partnership for U.S. federal income tax purposes. Except as provided in this Section 5.1 or in the Delaware Act, no General Partner will be required or obligated to make any additional contributions to the capital of the Partnership.

(d) Subject to the provisions of the 1940 Act, and except as otherwise permitted by the General Partner, (1) initial and any additional Capital Contributions by any Partner will be payable in cash or in Securities that the General Partner, in its absolute discretion, causes the Partnership to accept, and (2) initial and any additional Capital Contributions in cash will be payable in readily available funds at the date of the proposed acceptance of the contribution. The Partnership will charge each Partner making a Capital Contribution in Securities to the capital of the Partnership an amount as may be determined by the General Partner to reimburse the Partnership for any costs incurred by the Partnership by reason of accepting the Securities, and any charge will be due and payable by the contributing Partner in full at the time the Capital Contribution to which the charges relate is due. The value of contributed Securities will be determined in accordance with Section 7.3 of this Agreement as of the date of contribution.

(e) An Advisor may make Capital Contributions and own Units in the Partnership and, in so doing, will become a Limited Partner with respect to the contributions.

(f) The minimum initial and additional contributions set out in paragraphs (a) and (b) of this Section 5.1 may be increased or reduced by the General Partner from time to time. Reductions may be applied to all investors, individual investors or to classes of investors, in each case in the sole discretion of the General Partner.

SECTION 5.2 Rights of Partners to Capital. No Partner will be entitled to interest on the Partner's Capital Contribution, nor will any Partner be entitled to the return of any capital of the Partnership except (a) upon the repurchase by the Partnership of the Partner's Units in accordance with Section 4.5 of this Agreement, (b) in accordance with the provisions of Section 5.5(b) of this Agreement or (c) upon the liquidation of the Partnership's assets in accordance with Section 6.2 of this Agreement. Except as specified in the Delaware Act, or with respect to distributions or similar disbursements made in error, no Partner will be liable for the return of any such amounts. To the fullest extent permitted by applicable law, no Partner will have the right to require partition of the Partnership's property or to compel any sale or appraisal of the Partnership's assets.

SECTION 5.3 Capital Accounts. The Partnership shall maintain a separate Capital Account on its books for each Partner. As of any date, the Capital Account of a Partner shall be equal to the NAV per Unit as of such date, multiplied by the number of Units then held by such Partner. Any amounts charged or debited against a Partner's Capital Account under Sections 5.4 and 5.5, other than among all Partners in accordance with the number of Units held by each such Partner, shall be treated as a partial redemption of such Partner's Units for no additional consideration as of the date on which the Board of Directors determines such charge or debit is required to be made, and such Partner's Units shall be reduced thereby as appropriately determined by the Partnership. Any amounts credited to a Partner's Capital Account under Sections 5.4 and 5.5, other than among all Partners in accordance with the number of Units held by each such Partner, shall be treated as an issuance of additional Units to such Partner for no additional consideration as of the date on which the Board of Directors determines such credit is required to be made, and such Partner's Units shall be increased thereby as appropriately determined by the Partnership.

SECTION 5.4 Allocation of Certain Withholding Taxes and Other Expenditures. (a) If the Partnership incurs a withholding tax or other tax obligation with respect to the share of Partnership income allocable to any Partner, then the General Partner, without limitation of any other rights of the Partnership or the General Partner, will cause the amount of the obligation to be debited against the Capital Account of the Partner when the Partnership pays the obligation, and any amounts then or in the future distributable to the Partner will be reduced by the amount of the taxes. If the amount of the taxes is greater than any distributable amounts, then the Partner and any successor to the Partner's Units will pay to the Partnership as a Capital Contribution, upon demand by the General Partner, the amount of

the excess. A General Partner will not be obligated to apply for or obtain a reduction of or exemption from withholding tax on behalf of any Partner that may be eligible for the reduction or exemption, except that, in the event that the General Partner determines that a Partner is eligible for a refund of any withholding tax, the General Partner may, at the request and expense of the Partner, assist the Partner in applying for such refund.

(b) Except as otherwise provided for in this Agreement and unless prohibited by the 1940 Act, any expenditures payable by the Partnership, to the extent determined by the General Partner to have been paid or withheld on behalf of, or by reason of particular circumstances applicable to, one or more but fewer than all of the Partners, will be charged to only those Partners on whose behalf the payments are made or whose particular circumstances gave rise to such payments. The charges will be debited from the Capital Accounts of the Partners as of the close of the Fiscal Period during which the items were paid or accrued by the Partnership.

SECTION 5.5 Reserves. (a) The General Partner may cause appropriate reserves to be created, accrued and charged by the Partnership against Net Assets and proportionately against the Capital Accounts of the Partners for contingent liabilities, if any, as of the date any contingent liability becomes known to the General Partner, the reserves to be in the amounts that the General Partner in its sole discretion deems necessary or appropriate. The General Partner may increase or reduce any reserves from time to time by amounts as it in its sole discretion deems necessary or appropriate. The amount of any reserve, or any increase or decrease in a reserve, will be proportionately charged or credited to the Capital Accounts of those Persons who or that are Partners at the time the reserve is created, or increased or decreased, except that if any individual reserve item, adjusted by any increase in the item, exceeds the lesser of \$500,000 or 1% of the aggregate value of the Units of all of those Partners, then the amount of the reserve, increase or decrease may instead, at the discretion of the General Partner, be charged or credited to the Capital Accounts of those Persons who or that were Partners at the time, as determined by the General Partner in its sole discretion, of the act or omission giving rise to the contingent liability for which the reserve was established, increased or decreased in proportion to their Capital Accounts.

(b) If any amount is required by Section 5.5(a) of this Agreement to be charged or credited to a Person who or that is no longer a Partner, the amount will be paid by or to the party, in cash, with interest from the date on which the General Partner determines that the charge or credit is required. In the case of a charge, the former Partner will be obligated to pay as a Capital Contribution the amount of the charge, plus interest as provided in this Section 5.5(b), to the Partnership on demand, except that (1) in no event will a former Partner be obligated to make a payment exceeding the amount of the Partner's Capital Account at the time to which the charge relates and (2) no demand will be made after the expiration of three years from the date on which the Person ceased to be a Partner. To the extent that a former Partner fails to pay to the Partnership, in full, any amount required to be charged to the former

Partner under Section 5.5(a) of this Agreement, the deficiency will be charged proportionately to the Capital Accounts of the Partners at the time of the act or omission giving rise to the charge to the extent feasible, and otherwise proportionately to the Capital Accounts of the current Partners.

SECTION 5.6 Allocation to Avoid Capital Account Deficits. To the extent that any debits under Sections 5.4 through 5.5 of this Agreement would reduce the balance of the Capital Account of any Limited Partner below zero, that portion of any such debits will be allocated instead to the Capital Account of the General Partner. Any credits in any subsequent Fiscal Period that otherwise would be allocable under Sections 5.4 through 5.5 of this Agreement to the Capital Account of any Limited Partner previously affected by the application of this Section 5.6 will instead be allocated to the Capital Account of the General Partner in amounts necessary to offset all previous debits attributable to the Limited Partner, made in accordance with this Section 5.6, that have not been recovered.

SECTION 5.7 Allocations Prior to Closing Date. Any net cash profits or any net cash losses realized by the Partnership from the purchase or sale of Securities during the period ending on the day prior to the Closing Date will be allocated to the Capital Account of the General Partner. No unrealized item of profit or loss will be allocated under this Section 5.7 to the Capital Account of any Partner.

SECTION 5.8 Tax Allocations. For each taxable year of the Partnership, items of income, deduction, gain, loss or credit will be allocated for income tax purposes among the Partners in a manner so as to reflect equitably amounts credited or debited to each Partner's Capital Account for the current and prior taxable years (or relevant portions of those years). Allocations under this Section 5.8 will be made in accordance with the principles of Sections 704(b) and 704(c) of the Code, and in conformity with Treasury Regulations promulgated under these Sections, or the successor provisions to such Sections and Regulations. Notwithstanding anything to the contrary in this Agreement, the Partnership will allocate to the Partners those gains or income necessary to satisfy the "qualified income offset" requirement of Treasury Regulations Section 1.704-1(b)(2)(ii)(d). If the Partnership realizes net capital gains for U.S. federal income tax purposes for any taxable year during or as of the end of which one or more Positive Basis Partners (as defined in this Section 5.8) withdraw from the Partnership under Article IV or VI of this Agreement, the General Partner may elect to allocate net gains as follows: (a) to allocate net gains among Positive Basis Partners, in proportion to the Positive Basis (as defined in this Section 5.8) of each Positive Basis Partner, until either the full amount of the net gains has been so allocated or the Positive Basis of each Positive Basis Partner has been eliminated, and (b) to allocate any net gains not so allocated to Positive Basis Partners to the other Partners in a manner that reflects equitably the amounts credited to the Partners' Capital Accounts. If the Partnership realizes capital losses for U.S. federal income tax purposes for any Fiscal Year during or as of the end of which one or more Negative Basis Partners (as defined in this Section 5.8) withdraw from the Partnership under Article IV or VI of this Agreement, the General Partner may elect to allocate net losses as follows: (i) to allocate net losses among Negative Basis Partners, in proportion to the Negative Basis (as defined in this Section 5.8) of each Negative Basis Partner, until either the full

amount of net losses will have been so allocated or the Negative Basis of each Negative Basis Partner has been eliminated, and (ii) to allocate any net losses not so allocated to Negative Basis Partners, to the other Partners in a manner that reflects equitably the amounts credited to the Partners' Capital Accounts. As used in this Section 5.8, the term "Positive Basis" means, with respect to any Partner and as of any time of calculation, the amount by which the total of the Partners' Capital Accounts as of that time exceeds the Partner's "adjusted tax basis," for U.S. federal income tax purposes, in the Partner's Units in the Partnership as of that time (determined without regard to any adjustments made to the "adjusted tax basis" by reason of any Transfer or assignment of Units, including by reason of death). As used in this Section 5.8, the term "Positive Basis Partner" means any Partner who or that withdraws from the Partnership and who or that has a Positive Basis as of the effective date of the Partner's withdrawal. As used in this Section 5.8, the term "Negative Basis" means, with respect to any Partner and as of any time of calculation, the amount by which the Partner's "adjusted tax basis," for U.S. federal income tax purposes, in the Partner's Units in the Partnership as of that time (determined without regard to any adjustments made to the "adjusted tax basis" by reason of any Transfer or assignment of Unitst, including by reason of death, and without regard to such Partner's share of the liabilities of the Partnership under section 752 of the Code) exceeds the Partner's Capital Account as of such time. As used in this Section 5.8, the term "Negative Basis Partner" means any Partner who or that withdraws from the Partnership and who or that has a Negative Basis as of the effective date of the Partner's withdrawal.

SECTION 5.9 Distributions. (a) The General Partner may cause the Partnership to make distributions in cash or in kind at any time to all of the Partners on a proportionate basis in accordance with the Partners' Investment Percentages.

(b) The General Partner may withhold taxes from any distribution to any Partner to the extent required by the Code or any other applicable law. For purposes of this Agreement, any taxes so withheld by the Partnership with respect to any amount distributed by the Partnership to any Partner will be deemed to be a distribution or payment to the Partner, reducing the amount otherwise distributable to the Partner under this Agreement and reducing the Capital Account of the Partner. Neither the General Partner nor the Directors will be obligated to apply for or obtain a reduction of or exemption from withholding tax on behalf of any Partner that may be eligible for reduction or exemption. To the extent that a Partner claims to be entitled to a reduced rate of, or exemption from, a withholding tax pursuant to an applicable income tax treaty, or otherwise, the Partner will furnish the Partnership with any information and forms that the Partner may be required to complete if necessary to comply with any and all laws and regulations governing the obligations of withholding tax agents. Each Partner represents and warrants that any information and forms furnished by the Partner will be true and accurate and agrees to indemnify the Partnership and each of the Partners from any and all losses, claims, damages, liabilities costs and expenses resulting from the filing of inaccurate or incomplete information or forms relating to the withholding taxes (including legal or other expenses incurred in investigating or defending against any such losses, claims, damages, liabilities, costs and expenses).

(c) Notwithstanding any provision to the contrary contained in this Agreement, the Partnership and the General Partner on behalf of the Partnership will not repurchase any Units or make a distribution to any Partner on account of the Partner's Units, if such repurchase or distribution would violate the Delaware Act or other applicable law.

ARTICLE VI

DISSOLUTION AND LIQUIDATION

SECTION 6.1 Dissolution. (a) The Partnership will be dissolved if at any time it has no Limited Partners or upon the occurrence of any of the following events:

(1) upon the affirmative vote to dissolve the Partnership by both (A) a majority of the Directors (including the vote of a majority of the Independent Directors) and (B) Partners holding at least two-thirds of the total number of votes eligible to be cast by all Partners;

(2) upon either of: (A) an election by the General Partner to dissolve the Partnership or (B) a General Partner's ceasing to be a General Partner in accordance with Section 4.1 of this Agreement (other than in conjunction with a Transfer of the Units of a General Partner in accordance with Section 4.3 of this Agreement to a Person who or that is admitted as a substituted General Partner under Section 2.6(a) of this Agreement), unless, as to the event described in clause (B) of this Section 6.1(a)(2), (i) the Partnership has at least one other General Partner who or that is authorized to and does carry on the business of the Partnership, or (ii) both the Directors and Partners holding not less than two-thirds of the total number of votes eligible to be cast by all Partners elect within 60 days after the event to continue the business of the Partnership and a Person to be admitted to the Partnership, effective as of the date of the event, as an additional General Partner who has agreed to make the contributions to the capital of the Partnership required to be made under Section 5.1(c) of this Agreement;

(3) upon the failure of Partners to approve successor Directors at a meeting called by the General Partner in accordance with Section 2.11(c) of this Agreement when no Director remains to continue the business of the Partnership; or

(4) as otherwise required by operation of law.

Dissolution of the Partnership will be effective on the later of the day on which the event giving rise to the dissolution occurs or, to the extent permitted by the Delaware Act, the conclusion of any applicable 60-day period during which the Directors and Partners elect to continue the business of the Partnership as provided in Section 6.1(a)(2), but the Partnership will not terminate until the assets of the Partnership have been liquidated in accordance with Section 6.2 of this Agreement and the Certificate has been canceled.

(b) Except as provided in Section 6.1(a) of this Agreement or in the Delaware Act, the death, adjudicated incompetence, dissolution, termination, liquidation, bankruptcy, reorganization, merger, sale of substantially all of the stock or assets of, or other change in the ownership or nature of a Partner, the admission to the Partnership of a new Partner, the withdrawal of a Partner from the Partnership, or the Transfer by a Partner of the Partner's Units to a third party will not cause the Partnership to dissolve.

SECTION 6.2 Liquidation of Assets. (a) Upon the dissolution of the Partnership as provided in Section 6.1 of this Agreement, the General Partner will promptly liquidate the business and administrative affairs of the Partnership, except that if the General Partner is unable to perform this function, a liquidator elected by Partners holding a majority of the total number of votes eligible to be cast by all Partners and whose fees and expenses will be paid by the Partnership will promptly liquidate the business and administrative affairs of the Partnership. Subject to the Delaware Act, the proceeds from liquidation (after establishment of appropriate reserves for all claims and obligations, including all contingent, conditional or unmatured claims and obligations in an amount that the General Partner or liquidator deems appropriate in its sole discretion as applicable) will be distributed in the following manner:

(1) the debts of the Partnership, other than debts, liabilities or obligations to Limited Partners, and the expenses of liquidation (including legal and accounting fees and expenses incurred in connection with the liquidation), up to and including the date on which distribution of the Partnership's assets to the Partners has been completed, will first be paid on a proportionate basis;

(2) any debts, liabilities or obligations owing to the Limited Partners will be paid next in their order of seniority and on a proportionate basis; and

(3) the Partners are paid next on a proportionate basis the positive balances of their Capital Accounts after giving effect to all allocations to be made to the Partners' Capital Accounts for the Fiscal Period ending on the date of the distributions under this Section 6.2(a)(3).

(b) Notwithstanding the provisions of this Section 6.2, upon dissolution of the Partnership, subject to the Delaware Act and the priorities set out in Section 6.2(a) of this Agreement, the General Partner or liquidator may distribute ratably in kind any assets of the Partnership. If any in-kind distribution is to be made under this Section 6.2(b), (1) the assets distributed in kind will be valued in accordance with Section 7.3 of this Agreement as of the actual date of their distribution and charged as so valued and distributed against amounts to be paid under Section 6.2(a) of this Agreement, and (2) any profit or loss attributable to property distributed in kind will be included in the Net Profit or Net Loss for the Fiscal Period ending on the date of the distribution.

Notwithstanding any provision of this Agreement to the contrary, the General Partner may compel a Partner to accept a distribution of any asset in kind from the Partnership even if the percentage of the asset distributed to the Partner exceeds a percentage of the asset that is equal to the percentage in which the Partner shares in distributions from the Partnership.

ARTICLE VII

ACCOUNTING, VALUATIONS AND BOOKS AND RECORDS

SECTION 7.1 Accounting and Reports. (a) The Partnership will adopt for tax accounting purposes any accounting method that the General Partner decides in its sole discretion is in the best interests of the Partnership. The Partnership's accounts will be maintained in U.S. currency.

(b) As soon as practicable after the end of each taxable year of the Partnership, the Partnership will furnish to Partners information regarding the operation of the Partnership and the Partners' Units as is necessary for Partners to complete U.S. Federal and state income tax or information returns and any other tax information required by U.S. Federal or state law. To the extent such information may be delayed due to delayed reporting by Advisors with whom the Partnership invests (through the Master Partnership), the Partners may be required to file extensions of the filing dates for their income tax returns at the Federal, state and local levels.

(c) Except as otherwise required by the 1940 Act, or as may otherwise be permissible under other applicable law, the Partnership will furnish to each Limited Partner a semiannual report and an annual report containing the information required by the 1940 Act as soon as practicable. The Partnership will cause financial statements contained in each annual report furnished under this Section 7.1 to be accompanied by a certificate of independent public accountants based upon an audit performed in accordance with generally accepted accounting principles. The Partnership may furnish to each Partner any other periodic reports the General Partner deems necessary or appropriate in its discretion.

(d) The General Partner will notify the Directors of any change in the holders of interests of the General Partner within a reasonable time after the change.

SECTION 7.2 Determinations by General Partner. (a) All matters concerning the determination and allocation among the Partners of the amounts to be determined and allocated pursuant to Article V of this Agreement, including any taxes on those amounts and accounting procedures applicable with respect to those amounts, will be determined by the General Partner unless specifically and expressly otherwise provided for by the provisions of this Agreement or as required by law. Any such determinations and allocations will be final and binding on all of the Partners.

(b) The General Partner may make any adjustments to the computation of Net Profit and/or Net Loss, or any components (withholding any items of income, gain, loss or deduction) constituting Net Profit and/or Net Loss as the General Partner deems appropriate to reflect fairly and accurately the financial results of the Partnership and the intended allocation of Net Profit and/or Net Loss among the Partners.

SECTION 7.3 Valuation of Assets. (a) Except as may be required by the 1940 Act, the Directors will value or cause to have valued any Securities or other assets and liabilities of the Partnership as of the close of business on the last day of each Fiscal Period and at such other times as the Directors may determine, in their discretion, in accordance with valuation procedures as established from time to time by the Directors. Assets of the Partnership invested in an Advisor Fund or Advisor Account will be valued in accordance with the terms and conditions of the agreement or other document governing the operation of the Advisor Fund or Advisor Account. In determining the value of the assets of the Partnership, no value will be placed on the goodwill or name of the Partnership, or the office records, files, statistical data or any similar intangible assets of the Partnership not normally reflected in the Partnership's accounting records. Any items of income earned but not received, expenses incurred but not yet paid, liabilities fixed or contingent, and any other prepaid expenses to the extent not otherwise reflected in the books of account, and the value of options or commitments to purchase or sell Securities or commodities pursuant to agreements entered into prior to the valuation date will, however, be taken into account in determining the value of the Partnership's assets.

(b) Subject to the provisions of the 1940 Act, the value of Securities and other assets of the Partnership and the net asset value of the Partnership as a whole determined pursuant to this Section 7.3 will be conclusive and binding on all of the Partners and all Persons claiming through or under them.

ARTICLE VIII

MISCELLANEOUS PROVISIONS

SECTION 8.1 Amendment of Partnership Agreement.

(a) Except as otherwise provided in this Section 8.1, this Agreement may be amended, in whole or in part, with the approval of a majority of the Directors (including the vote of a majority of the Independent Directors, but only if such vote is required by the 1940 Act), except that any amendment also must be approved by a majority (as defined in the 1940 Act) of the outstanding voting securities of the Partnership if such vote is required by the 1940 Act.

(b) Any amendment that would:

(1) increase the obligation of a Partner to make any Capital Contribution,

(2) reduce the Capital Account of a Partner other than in accordance with Article V of this Agreement, or

(3) modify the events causing the dissolution of the Partnership, may be made only if (A) the written consent of each Partner adversely affected by the proposed action is obtained prior to the effectiveness of the action or (B) the amendment does not become effective until (i) each Limited Partner has received written notice of the amendment and (ii) any Limited Partner objecting to the amendment has been afforded a reasonable opportunity (under procedures prescribed by the General Partner in its sole discretion) to tender all of the Partner's Units for repurchase by the Partnership. Notwithstanding the preceding sentence or the provisions of Subsection 8.1(c), any amendment that would alter the provisions of Section 8.1 relating to the material amendment of this Agreement or the provisions of Section 3.8 of this Agreement relating to indemnification may be made only with the unanimous consent of the Partners and, to the extent required by the 1940 Act, approval of a majority of the Directors (and, if so required, a majority of the Independent Directors).

(c) Notwithstanding the provisions of Sections 8.1(a) and 8.1(b) of this Agreement, the General Partner, at any time without the consent of any other Partner, may:

(1) restate this Agreement, together with any amendments to this Agreement that have been duly adopted in accordance with the provisions of this Agreement to incorporate the amendments in a single, integrated document;

(2) amend this Agreement (other than with respect to the matters described in Section 8.1(b) of this Agreement) to change the name of the Partnership in accordance with Section 2.2 hereof or to effect compliance with any applicable law or regulation, including, but not limited to, to satisfy the requirements of applicable U.S. banking law or regulation, or to cure any ambiguity or to correct or supplement any provision of this Agreement, so long as the action does not adversely affect the rights of any Partner in any material respect; and

(3) amend this Agreement to make any changes necessary or desirable, based on advice of legal counsel to the Partnership, to assure the Partnership's continuing eligibility to be classified for U.S. federal income tax purposes as a Partnership that is not treated as a corporation for tax purposes under the Code; subject, however, to the limitation that any material amendment to this Agreement under Section 8.1(c)(2) or (3) of this Agreement will be valid only if approved by a majority of the Directors (including the vote of a majority of the Independent Directors, if required by the 1940 Act).

(d) The General Partner will give prior written notice of any proposed amendment to this Agreement (other than any amendment of the type contemplated by Section 8.1(c) of this Agreement) to each Partner, which notice sets out (1) the text of the proposed amendment or (2) a summary of the amendment and a statement that the text of the amendment will be furnished to any Partner upon request.

SECTION 8.2 Special Power of Attorney.

(a) Each Partner irrevocably makes, constitutes and appoints the General Partner and each of the Directors, acting severally, and any liquidator of the Partnership's assets appointed pursuant to Section 6.2 of this Agreement with full power of substitution, the true and lawful representatives and attorneys-in-fact of, and in the name, place and stead of, the Partner, with the power from time to time to make, execute, sign, acknowledge, swear to, verify, deliver, record, file and/or publish:

(1) any amendment to this Agreement;

(2) any amendment to the Certificate, including, without limitation, any such amendment required to reflect any amendments to this Agreement, and including, without limitation, an amendment to effectuate any change in the membership of the Partnership; and

(3) all other such instruments, documents and certificates that, in the view of legal counsel to the Partnership, from time to time may be required by the laws of the United States of America, the State of Delaware or any other jurisdiction in which the General Partner determines that the Partnership should do business, or any political subdivision or agency of any such jurisdiction, or that legal counsel may deem necessary or appropriate to effectuate, implement and continue the valid existence and business of the Partnership as a limited partnership under the Delaware Act.

(b) Each Partner is aware that the terms of this Agreement permit certain amendments to this Agreement to be effected and certain other actions to be taken or omitted by or with respect to the Partnership without the Partner's consent. Each Partner agrees that if an amendment to the Certificate or this Agreement or any action by or with respect to the Partnership is taken in the manner contemplated by this Agreement, notwithstanding any objection that the Partner may assert with respect to the action, the attorneys-in-fact appointed under this Agreement are authorized and empowered, with full power of substitution, to exercise the authority granted in this Section 8.2 in any manner that may be necessary or appropriate to permit the amendment to be made or action lawfully taken or omitted. Each Partner is fully aware that each Partner will rely on the effectiveness of this special power of attorney with a view to the orderly administration of the affairs of the Partnership.

(c) The power of attorney contemplated by this Section 8.2 is a special power of attorney and is coupled with an interest in favor of the General Partner and each of the Directors, acting severally, and any liquidator of the Partnership's assets appointed under Section 6.2 of this Agreement, and as such the power of attorney:

(1) will be irrevocable and continue in full force and effect notwithstanding the subsequent death or incapacity of any Person granting the power of attorney, regardless of whether the Partnership, the General Partner, the Directors or any liquidator has had notice of the death or incapacity; and

(2) will survive the delivery of a Transfer by a Partner of the Partner's Units, except that, when the transferee of Units has been approved by the General Partner for admission to the Partnership as a substituted Partner, the power of attorney given by the transferor will survive the delivery of the assignment for the sole purpose of enabling the General Partner, the Directors or any liquidator to execute, acknowledge and file any instrument necessary to effect the substitution.

SECTION 8.3 Notices. Notices that may or are required to be provided under this Agreement will be made to a Partner by hand delivery, regular mail (registered or certified mail return receipt requested in the case of notice to the General Partner), commercial courier service, telecopier, or electronic mail (with a confirmation copy by registered or certified mail in the case of notices to the General Partner by telecopier or electronic mail), and will be addressed to the Partner at his, her or its address as set out in the books and records of the Partnership (or to any other address as may be designated by any Partner by notice addressed to the General Partner in the case of notice given to any Partner, and to each of the Partners in the case of notice given to the General Partner). Notices will be deemed to have been provided when delivered by hand, on the date indicated as the date of receipt on a return receipt or when received if sent by regular mail, commercial courier service, telecopier or by electronic mail. A document that is not a notice and that is required to be provided under this Agreement by any party to another party may be delivered by any reasonable means.

SECTION 8.4 Agreement Binding Upon Successors and Assigns. This Agreement will be binding upon and inure to the benefit of the Partners and their respective heirs, successors, assigns, executors, trustees or other legal representatives, but the rights and obligations of the Partners may not be Transferred or delegated except as provided in this Agreement, and any attempted Transfer or delegation of those rights and obligations that is not made in accordance with the terms of this Agreement will be void.

SECTION 8.5 Choice of Law; Arbitration.

(a) Notwithstanding the location at which this Agreement is executed by any of the Partners, the Partners expressly agree that all the terms and provisions of this Agreement are governed by and will be construed under the laws of the State of Delaware, including the Delaware Act, without regard to the conflict of law principles of the State of Delaware.

(b) To the extent such action is consistent with the provisions of the 1940 Act and any other applicable law, except as provided in Section 8.10(b) of this Agreement, each Partner agrees to submit all controversies arising between or among Partners or one or more Partners and the Partnership in connection with the Partnership or its businesses or concerning any transaction, dispute or the construction, performance or breach of this Agreement or any other agreement relating to the Partnership, whether entered into prior to, on or subsequent to the date of this Agreement, to arbitration in accordance with the provisions set out in this Section 8.5. EACH PARTNER UNDERSTANDS THAT ARBITRATION IS FINAL AND BINDING ON THE PARTNERS AND THAT THE PARTNERS IN EXECUTING THIS AGREEMENT ARE WAIVING THEIR RIGHTS TO SEEK REMEDIES IN COURT, INCLUDING THE RIGHT TO JURY TRIAL.

(c) Controversies will be finally settled by, and only by, arbitration in accordance with the commercial arbitration rules of the American Arbitration Association (the “AAA”) to the fullest extent permitted by law. The place of arbitration will be Raleigh, North Carolina. Any arbitration under this Section 8.5 will be conducted before a panel of three arbitrators. The Partner or Partners initiating arbitration under this Section 8.5 will appoint one arbitrator in the demand for arbitration. The Partner or Partners against whom or which arbitration is sought will jointly appoint one arbitrator within 30 Business Days after notice from the AAA of the filing of the demand for arbitration. The two arbitrators nominated by the Partners will attempt to agree on a third arbitrator within 30 Business Days of the appointment of the second arbitrator. If the two arbitrators fail to agree on the third arbitrator within the 30-day period, then the AAA will appoint the third arbitrator within 30 Business Days following the expiration of the 30-day period. Any award rendered by the arbitrators will be final and binding on the Partners, and judgment upon the award may be entered in the supreme court of the state of New York and/or the U.S. District Court for the Southern District of New York, or any other court having jurisdiction over the award or having jurisdiction over the Partners or their assets. The arbitration agreement contained in this Section 8.5 will not be construed to deprive any court of its jurisdiction to grant provisional relief (including by injunction or order of attachment) in aid of arbitration proceedings or enforcement of an award. In the event of arbitration as provided in this Section 8.5, the arbitrators will be governed by and will apply the substantive (but not procedural) law of Delaware, to the exclusion of the principles of the conflicts of law of Delaware. The arbitration will be conducted in accordance with the procedures set out in the commercial arbitration rules of the AAA. If those rules are silent with respect to a particular matter, the procedure will be as agreed by the Partners, or in the absence of agreement among or between the Partners, as established by the arbitrators. Notwithstanding any other provision of this Agreement, this Section 8.5(c) will be construed to the maximum extent possible to comply with the laws of the State of Delaware, including the Uniform Arbitration Act (10 Del. C Section 5701 et seq.) (the “Delaware Arbitration Act”). If, nevertheless, it is determined by a court of competent jurisdiction that any provision or wording of this

Section 8.5(c), including any rules of the AAA, are invalid or unenforceable under the Delaware Arbitration Act or other applicable law, such invalidity will not invalidate all of this Section 8.5(c). In that case, this Section 8.5(c) will be construed so as to limit any term or provision so as to make it valid or enforceable within the requirements of the Delaware Arbitration Act or other applicable law, and, in the event such term or provision cannot be so limited, this Section 8.5(c) will be construed to omit such invalid or unenforceable provision.

SECTION 8.6 Not for Benefit of Creditors. The provisions of this Agreement are intended only for the regulation of relations among past, existing and future Partners, their assignees and the Partnership. This Agreement is not intended for the benefit of non-Partner creditors and, except to the extent provided in Section 3.8 of this Agreement, no rights are granted to non-Partner creditors under this Agreement.

SECTION 8.7 Consents. Any and all consents, agreements or approvals provided for or permitted by this Agreement (including minutes of any meeting) must be in writing and a signed copy of any such consent, agreement or approval will be filed and kept with the books of the Partnership.

SECTION 8.8 Merger and Consolidation.

(a) The Partnership may merge or consolidate with or into one or more limited partnerships formed under the Delaware Act or other business entities under an agreement of merger or consolidation that has been approved in the manner contemplated by the Delaware Act.

(b) Notwithstanding anything to the contrary in this Agreement, an agreement of merger or consolidation approved in accordance with the Delaware Act may, to the extent permitted by the Delaware Act, (1) effect any amendment to this Agreement, (2) effect the adoption of a new Partnership agreement for the Partnership if it is the surviving or resulting limited partnership in the merger or consolidation, or (3) provide that the Partnership agreement of any other constituent Partnership to the merger or consolidation (including a limited partnership formed for the purpose of consummating the merger or consolidation) will be the Partnership agreement of the surviving or resulting limited partnership.

(c) The Partnership may convert to another Delaware business entity in accordance with the Delaware Act upon the approval of the Partners representing a majority (as defined in the 1940 Act) of the outstanding voting securities of the Partnership.

SECTION 8.9 Pronouns. All pronouns used in this Agreement will be deemed to refer to the masculine, feminine, neuter, singular or plural, as the identity of the Person or Persons, firm or entity may require in the context in which they are used.

SECTION 8.10 Confidentiality.

(a) A Limited Partner may obtain from the General Partner, upon reasonable demand for any purpose reasonably related to the Limited Partner's interest in the Partnership, information regarding the affairs of the Partnership as is just and reasonable under the Delaware Act, subject to reasonable standards (including standards governing the information and documents to be furnished, at what time and location and at whose expense) established by the General Partner in its sole discretion.

(b) Each Limited Partner agrees in executing this Agreement that, except as required by applicable law or any regulatory body, the Limited Partner will not divulge, furnish or make accessible to any other Person the name or address (whether business, residence or mailing) of any Limited Partner (collectively, "Confidential Information") without the prior written consent of the General Partner, which consent may be withheld in its sole discretion.

(c) Each Partner recognizes that in the event that this Section 8.10 is breached by any Partner or any of its principals, Partners, members, directors, officers, employees or agents or any of the Partner's Affiliates, including any of the Affiliate's principals, Partners, members, directors, officers, employees or agents, irreparable injury may result to the non-breaching Partners and the Partnership. In recognition of that irreparable injury, any non-breaching Partner may have, in addition to any and all other remedies at law or in equity to which the non-breaching Partner and the Partnership may be entitled, the right to obtain equitable relief, including, without limitation, injunctive relief, to prevent any disclosure of Confidential Information, plus reasonable attorneys' fees and other litigation expenses incurred in connection with obtaining the equitable relief. If any non-breaching Partner or the Partnership ("Initiating Non-Breaching Party") determines that any other Partner or any of that Partner's principals, Partners, members, directors, officers, employees or agents or any of the Partner's Affiliates, including any of the Affiliates' principals, Partners, members, directors, officers, employees or agents, should be enjoined from or required to take any action to prevent the disclosure of Confidential Information, each of the other non-breaching Partners agrees to join the non-breaching Initiating Non-Breaching Party in pursuing injunctive relief in a court of appropriate jurisdiction.

(d) The General Partner will have the right to keep confidential from the Limited Partners, for any period of time as the General Partner deems reasonable in its sole discretion, any information that the General Partner reasonably believes to be in the nature of trade secrets or other information the disclosure of which the General Partner in good faith believes is not in the best interest of the Partnership or could damage the Partnership or its business or that the Partnership is required by law or by agreement with a third party to keep confidential.

SECTION 8.11 Certification of Non-Foreign Status. Each Limited Partner or transferee of an Interest or a portion of an Interest from a Limited Partner who or that is admitted to the Partnership in accordance with this Agreement will certify, upon admission to the Partnership and at any other time as the General Partner may request, whether the Limited Partner or transferee is a “United States Person” within the meaning of the Code on forms to be provided by the Partnership, and will notify the Partnership within 30 days of any change in the status of the Limited Partner or transferee. Any Limited Partner or transferee who or that fails to provide certification when requested to do so by the General Partner may be treated as a non-United States Person for purposes of U.S. Federal tax withholding.

SECTION 8.12 Severability. Each Partner agrees that the Partner intends that, if any provision of this Agreement is determined by a court of competent jurisdiction or regulatory authority with jurisdiction over the Partnership or the General Partner not to be enforceable in the manner set out in this Agreement, then the provision should be enforceable to the maximum extent possible under applicable law. If any provision of this Agreement is held to be invalid or unenforceable, the invalidation or unenforceability will not affect the validity or enforceability of any other provision of this Agreement (or portion of the provision).

SECTION 8.13 Entire Agreement. This Agreement constitutes the entire agreement among the Partners pertaining to the subject matter of this Agreement and supersedes all prior agreements and understandings pertaining to that subject matter.

Notwithstanding any other provision of this Agreement, including Section 8.1, each Partner, in executing this Agreement, acknowledges and agrees that the General Partner, on its own behalf or on behalf of the Partnership, without the approval of the Limited Partners or any other Person, may enter into a written agreement or agreements with any other Partner, executed contemporaneously with the admission of the other Partner to the Partnership, affecting or modifying the terms of, or establishing rights under, this Agreement or any subscription agreement. Each Partner agrees that any terms contained in any such other agreement with another Partner will govern with respect to the other Partner notwithstanding the provisions of this Agreement or any subscription agreement, and that the Partner will have no rights in respect of those granted in favor of such other Partner.

SECTION 8.14 Discretion. To the fullest extent permitted by law, whenever in this Agreement a Person is permitted or required to make a decision (a) in its “sole discretion” or “discretion” or under a grant of similar authority or latitude, the Person will be entitled to consider only those interests and factors as he, she or it desires, including his, her or its own interests, and, to the fullest extent permitted by law, will have no duty or obligation to give any consideration to any interest of or factors affecting the Partnership or the Limited Partners, or (b) in its “good faith” or under another express standard, then the Person will act under the express standard and will not be subject to any other or different standards imposed by this Agreement or any other agreement contemplated by this Agreement or by relevant provisions of law or in equity or otherwise.

SECTION 8.15 Conflicts. The Partners acknowledge and agree that the General Partner and its Affiliates may engage in activities in which their respective interests or the interests of their clients may conflict with the interests of the Partnership or the Limited Partners, and that the resolution of such conflicts may not always be resolved by the General Partner or its Affiliates in favor of the Partnership or the Limited Partners.

SECTION 8.16 Counterparts. This Agreement may be executed in several counterparts, all of which together will constitute one agreement binding on all Partners, notwithstanding that all the Partners have not signed the same counterpart.

SECTION 8.17 Headings. The headings in this Agreement are included for convenience of reference only and in no way define or delimit any of the provisions of this Agreement or otherwise affect their construction or effect.

[Remainder of Page Intentionally Left Blank]

IN EXECUTING THIS AGREEMENT, EACH PARTNER ACKNOWLEDGES HAVING READ THIS AGREEMENT IN ITS ENTIRETY BEFORE SIGNING, INCLUDING THE PRE-DISPUTE ARBITRATION CLAUSES SET OUT IN SECTION 8.5 AND THE CONFIDENTIALITY CLAUSES SET OUT IN SECTION 8.10.

The Partners have executed this Agreement as of the day and year first above written.

GENERAL PARTNER:
HATTERAS INVESTMENT MANAGEMENT LLC

By: /s/ David B. Perkins
Name: David B. Perkins
Title: Managing Member

ORGANIZATIONAL LIMITED PARTNER:

By: /s/ David B. Perkins
Name: David B. Perkins

LIMITED PARTNERS:

Each Person who or that has signed, or has had signed on the Person's behalf, a Limited Partner Signature Page, which will constitute a counterpart of this Agreement.

HATTERAS CORE ALTERNATIVES TEI INSTITUTIONAL FUND, L.P.

Amended and Restated Agreement of Limited Partnership

Dated as of January 1, 2012

TABLE OF CONTENTS

	Page
ARTICLE I	DEFINITIONS 1
ARTICLE II	ORGANIZATION; ADMISSION OF PARTNERS; DIRECTORS 5
Section 2.1	Formation of Limited Partnership 6
Section 2.2	Name 6
Section 2.3	Principal and Registered Office 6
Section 2.4	Duration 6
Section 2.5	Business of the Partnership 6
Section 2.6	General Partner 6
Section 2.7	Limited Partners 7
Section 2.8	Organizational Limited Partner 7
Section 2.9	Both General and Limited Partner 7
Section 2.10	Limited Liability 7
Section 2.11	Directors 8
ARTICLE III	MANAGEMENT; ADVICE AND MANAGEMENT 9
Section 3.1	Management and Control 9
Section 3.2	Powers Reserved by the General Partner 10
Section 3.3	Actions by Directors 12
Section 3.4	Meetings of Partners 13
Section 3.5	Custody of Assets of the Partnership 14
Section 3.6	Other Activities 14
Section 3.7	Duty of Care 15
Section 3.8	Indemnification 16
Section 3.9	Fees, Expenses and Reimbursement 18
ARTICLE IV	TERMINATION OF STATUS OF GENERAL PARTNER; REMOVAL OF GENERAL PARTNER; TRANSFERS AND REPURCHASES 20
Section 4.1	Termination of Status of General Partner 20
Section 4.2	Removal of General Partner 21
Section 4.3	Transfer of Units of General Partner 21
Section 4.4	Transfer of Units of Limited Partners 21
Section 4.5	Repurchase of Units 22
ARTICLE V	CAPITAL 26
Section 5.1	Contributions to Capital 26
Section 5.2	Rights of Partners to Capital 28
Section 5.3	Capital Accounts 28
Section 5.4	Allocation of Certain Withholding Taxes and Other Expenditures 28
Section 5.5	Reserves 29
Section 5.6	Allocation to Avoid Capital Account Deficits 29
Section 5.7	Allocations Prior to Closing Date 30
Section 5.8	Tax Allocations 30
Section 5.9	Distributions 31

TABLE OF CONTENTS

(continued)

	Page
ARTICLE VI DISSOLUTION AND LIQUIDATION	32
Section 6.1 Dissolution	32
Section 6.2 Liquidation of Assets	33
ARTICLE VII ACCOUNTING, VALUATIONS AND BOOKS AND RECORDS	34
Section 7.1 Accounting and Reports	34
Section 7.2 Determinations by General Partner	34
Section 7.3 Valuation of Assets	34
ARTICLE VIII MISCELLANEOUS PROVISIONS	35
Section 8.1 Amendment of Partnership Agreement	35
Section 8.2 Special Power of Attorney	36
Section 8.3 Notices	38
Section 8.4 Agreement Binding Upon Successors and Assigns	38
Section 8.5 Choice of Law; Arbitration	38
Section 8.6 Not for Benefit of Creditors	39
Section 8.7 Consents	40
Section 8.8 Merger and Consolidation	40
Section 8.10 Confidentiality	40
Section 8.11 Certification of Non-Foreign Status	41
Section 8.12 Severability	41
Section 8.13 Entire Agreement	41
Section 8.14 Discretion	42
Section 8.15 Conflicts	42
Section 8.16 Counterparts	42
Section 8.17 Headings	42

HATTERAS CORE ALTERNATIVES TEI INSTITUTIONAL FUND, L.P.

AMENDED AND RESTATED
AGREEMENT OF LIMITED PARTNERSHIP

AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP of HATTERAS CORE ALTERNATIVES TEI INSTITUTIONAL FUND, L.P. (the “Partnership”) dated as of January 1, 2012 by and among HATTERAS INVESTMENT MANAGEMENT LLC, as General Partner, David B. Perkins, as the Organizational Limited Partner and those Persons who execute this Agreement and whose names are reflected on the books and records of the Partnership as Limited Partners.

WHEREAS, the General Partner and organizational limited partner were parties to the Agreement of Limited Partnership of Hatteras Core Alternatives TEI Institutional Fund, L.P. dated as of November 29, 2006 (the “Original Partnership Agreement”); and

WHEREAS, the Original Partnership Agreement was amended and restated in its entirety on July 1, 2008 (the “First Amended and Restated Partnership Agreement”); and

WHEREAS, the First Amended and Restated Partnership Agreement was amended and restated in its entirety on December 3, 2010 (the “Second Amended and Restated Partnership Agreement”); and

WHEREAS, the Second Amended and Restated Partnership Agreement is hereby amended and restated in its entirety as set forth herein;

NOW, THEREFORE, for and in consideration of the mutual covenants and agreements herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

For purposes of this Agreement:

“1933 Act” means the Securities Act of 1933 and the rules, regulations and orders under the 1933 Act, as amended from time to time, or any successor law.

“1940 Act” means the Investment Company Act of 1940 and the rules, regulations and orders under the 1940 Act, as amended from time to time, or any successor law.

“Advisers Act” means the Investment Advisers Act of 1940 and the rules, regulations and orders under the Advisers Act, as amended from time to time, or any successor law.

“Advisor” means any Person designated to manage a portion of the assets of the Partnership and/or the Master Partnership, either directly or through the investment by the Partnership in an Advisor Fund.

“Advisor Account” means an account directly managed by an Advisor for the Partnership or the Master Partnership.

“Advisor Fund” means an investment company, a general or limited partnership, a limited liability company or other pooled investment vehicle in which the Partnership or the Master Partnership has invested and that is advised by an Advisor; whether or not, in each case, the entity is registered under the 1940 Act, and includes the Master Partnership and Advisor Funds that may be formed by the Partnership.

“Affiliate” means affiliated person as that term is defined in the 1940 Act.

“Agreement” means this Amended and Restated Agreement of Limited Partnership, as amended and/or restated from time to time.

“Board of Directors” means the board of the Directors who have been delegated the authority described in this Agreement.

“Business Day” means any day when the New York Stock Exchange is open for business.

“Capital Account” means, with respect to each Partner, the capital account established and maintained on behalf of the Partner in accordance with Section 5.3 of this Agreement.

“Capital Contribution” means the contribution, if any, made, or to be made, as the context requires, to the capital of the Partnership, after giving effect to any applicable placement agent fees, by a Partner or former Partner, as the case may be.

“Certificate” means the Certificate of Limited Partnership of the Partnership as filed with the office of the Secretary of State of the State of Delaware on July 20, 2006 and any amendments to the Certificate and/or restatements of the Certificate as filed with the office of the Secretary of State of the State of Delaware pursuant to this Agreement.

“Closing Date” means the first date on or as of which a Limited Partner other than the Organizational Limited Partner is admitted to the Partnership.

“Code” means the Internal Revenue Code of 1986, as amended from time to time, or any successor law.

“Commodity Exchange Act” means the Commodity Exchange Act and the rules, regulations and orders under the Commodity Exchange Act, as amended from time to time, or any successor law.

“Delaware Act” means the Delaware Revised Uniform Limited Partnership Act, as amended from time to time, or any successor law.

“Directors” means those natural Persons designated as “Directors” in accordance with this Agreement who are delegated the authority provided for in this Agreement and includes

David B. Perkins as the initial Director, or any other natural Persons who, from time to time after the date of this Agreement, become Directors in accordance with the terms and conditions of this Agreement.

“Fiscal Period” means the period commencing on the Closing Date, and thereafter each period commencing on the day immediately following the last day of the immediately preceding Fiscal Period, and ending in each case at the close of business on the first to occur of the following dates:

- (1) the last day of any calendar quarter, including the last day of the calendar year;
- (2) the day preceding the date as of which a contribution to the capital of the Partnership is made by any Partner in accordance with Section 5.1 of this Agreement;
- (3) the day on which the Partnership repurchases Units of any Partner in accordance with Section 4.5 of this Agreement;
- (4) the day as of which the Partnership admits a substituted Partner to whom or which Units of a Partner have been Transferred (unless the Transfer of the Units results in no change of beneficial ownership of the Units);
- (5) the day as of which any amount is credited to or debited against the Capital Account of any Partner, other than an amount that is credited to or debited against the Capital Accounts of all Partners in accordance with their respective Investment Percentages; or
- (6) December 31, or any other date that is the last day of the taxable year of the Partnership.

“Fiscal Year” means the period commencing on the Closing Date and ending on March 31, 2007, and thereafter each period commencing on April 1 of each year and ending on March 31 of that year (or on the date of a final distribution made in accordance with Section 6.2 of this Agreement), unless the Directors designate another fiscal year for the Partnership. The taxable year of the Partnership will end on December 31 of each year, or on any other date designated by the General Partner that is a permitted taxable year-end for tax purposes.

“Form N-2” means the Partnership’s Registration Statement on Form N-2 filed with the Securities and Exchange Commission, as amended from time to time.

“General Partner” means Hatteras Investment Management LLC, a limited liability company formed under the laws of the State of Delaware, and any other Person or Persons admitted to the Partnership as a general partner of the Partnership, collectively, in their capacities as general partners of the Partnership, and “General Partner” means any of the

General Partners. When the term General Partner is used in this Agreement and the Partnership has more than one General Partner, the term “General Partner” will refer to each General Partner.

“Independent Directors” mean those Directors who are not “interested persons” of the Partnership as that term is defined in the 1940 Act.

“Investment Percentage” means a percentage established for each Partner on the Partnership’s books determined by dividing the number of Units owned by such Partner by the number of Units owned by all of the Partners.

“Limited Partner” means any Person admitted to the Partnership as a Limited Partner of the Partnership (including any Person who or that is a General Partner when acting in the Person’s capacity as a Limited Partner) until the Partnership repurchases all of the Units of the Person as a Limited Partner in accordance with Section 4.5 of this Agreement, or a substituted Limited Partner or Partners are admitted with respect to the Person’s Units in accordance with Section 4.4 of this Agreement, in the Person’s capacity as a Limited Partner of the Partnership. For purposes of the Delaware Act, the Limited Partners will constitute a single class or group.

“Master Partnership” means Hatteras Master Fund, L.P., a limited partnership organized under the laws of the State of Delaware and any partnership continuing the business of the Master Partnership after its dissolution.

“Memorandum” means the Partnership’s Confidential Memorandum, as included in the Form N-2, as amended or supplemented from time to time.

“NAV per Unit,” as of a particular date, shall be equal to the Net Assets of the Fund as of such date, divided by the number of Units then outstanding.

“Net Assets” means the total value of all assets of the Partnership, less an amount equal to all accrued debts, liabilities and obligations of the Partnership, calculated before giving effect to any repurchases of Units.

“Net Profit” or “Net Loss” means the amount by which the Net Assets as of the close of business on the last day of a Fiscal Period exceed (in the case of Net Profit) or are less than (in the case of Net Loss) the Net Assets as of the commencement of the same Fiscal Period (or, with respect to the initial Fiscal Period of the Partnership, at the close of business on the Closing Date), the amount of any Net Profit or Net Loss to be adjusted to exclude any items to be allocated among the Capital Accounts of the Partners on a basis that is not in accordance with the Investment Percentages of all Partners as of the commencement of the Fiscal Period in accordance with Section 5.6 of this Agreement.

“Offering Materials” means the Memorandum and subscription materials provided to prospective Limited Partners in connection with an investment to be made in the Partnership.

“Organizational Limited Partner” means David B. Perkins.

“Partners” means the General Partner(s) and the Limited Partners, collectively, and “Partner” means any General Partner or Limited Partner.

“Partnership” means Hatteras Core Alternatives TEI Institutional Fund, L.P. and any partnership continuing the business of the Partnership after dissolution as provided in this Agreement.

“Person” means any individual, entity, corporation, partnership, limited liability company, joint stock company, trust, estate, joint venture, or unincorporated organization.

“Securities” means securities (including, without limitation, equities, debt obligations, options, and other “securities” as that term is defined in Section 2(a)(36) of the 1940 Act) and any contracts for forward or future delivery of any security, debt obligation, currency or commodity, all manner of derivative instruments and any contracts based on any index or group of securities, debt obligations, currencies or commodities, and any options on those contracts.

“Transfer” means the assignment, transfer, sale or other disposition of Units, including any right to receive any allocations and distributions attributable to the Units. Verbs, adverbs or adjectives such as “Transfer,” “Transferred” and “Transferring” have correlative meanings.

“Valuation Date” means any date upon which the net asset value of the Units are valued for purposes of a repurchase, as determined by the Board of Directors.

ARTICLE II

ORGANIZATION; ADMISSION OF PARTNERS; DIRECTORS

Section 2.1 Formation of Limited Partnership. (a) The Partnership is formed as a limited partnership pursuant to the Certificate and this Agreement. The Partners agree that their rights, duties and liabilities will be as provided in the Delaware Act, except as otherwise provided in this Agreement. The General Partner will cause the Certificate to be executed and filed in accordance with the Delaware Act and will cause to be executed and filed with applicable governmental authorities any other instruments, documents and certificates that the General Partner concludes may from time to time be required by the laws of the United States of America, the State of Delaware or any other jurisdiction in which the General Partner determines that the Partnership should do business, or any political subdivision or agency of any such jurisdiction, or that the General Partner determines is necessary or appropriate to effectuate, implement and continue the valid existence and business of the Partnership.

(b) The Partnership is formed for the object and purpose of (and the nature of the business to be conducted by the Partnership is) engaging in any lawful activity for which limited partnerships may be formed under the Delaware Act and engaging in any and all activities necessary or incidental to the foregoing.

Section 2.2 Name. The name of the Partnership is “Hatteras Core Alternatives TEI Institutional Fund, L.P.” or any other name that the General Partner may adopt after the date of this Agreement upon (a) causing an appropriate amendment to this Agreement to be executed and to the Certificate to be filed in accordance with the Delaware Act and (b) sending notice of the amendment to each Limited Partner.

Section 2.3 Principal and Registered Office. The Partnership will have its principal office at the principal office of the General Partner or at any other place designated from time to time by the General Partner. The Partnership’s registered agent in the State of Delaware shall be The Corporation Trust Company, and the Partnership’s registered office in the State of Delaware at Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801 unless the General Partner designates a different registered agent or office from time to time in accordance with the Delaware Act.

Section 2.4 Duration. The term of the Partnership will commence on the filing of the Certificate and will continue until the Partnership is dissolved and wound up and the Certificate is canceled in accordance with Section 6.1 of this Agreement.

Section 2.5 Business of the Partnership. (a) The business of the Partnership is to purchase, sell, invest and trade in Securities and engage in any financial or derivative transactions relating to Securities. Portions of the Partnership’s assets (which may constitute, in the aggregate, all of the Partnership’s assets) may be invested in Advisor Funds or Advisor Accounts that invest and trade in Securities or in separate managed accounts through which the Partnership may invest and trade in Securities, some or all of which may be advised by one or more Advisors. The Partnership may invest some or all of its assets directly or indirectly in the Master Partnership. The Partnership may execute, deliver and perform all contracts, agreements and other undertakings and engage in all activities and transactions as the General Partner, the Directors or the Investment Manager may deem necessary or advisable to carry out its objective or business.

(b) The Partnership will operate as a closed-end, management investment company in accordance with the 1940 Act and subject to any fundamental policies and investment restrictions described in the Form N-2.

(c) The Partnership may designate from time to time persons to act as signatories for the Partnership, including, without limitation, persons authorized to execute and deliver any filings with the U.S. Securities and Exchange Commission (the “SEC”) or applicable federal or state regulatory authorities or self-regulatory organizations.

Section 2.6 General Partner. (a) Hatteras Investment Management LLC shall be admitted to the Partnership as the General Partner upon its execution of this Agreement. The General Partner may admit to the Partnership as an additional General Partner any Person who agrees in writing to be bound by all of the terms of this Agreement as a General Partner. The General Partner may admit to the Partnership as a substituted General Partner any Person to

which it has Transferred its Units held as the General Partner in accordance with Section 4.3 of this Agreement. Any substituted General Partner will be admitted to the Partnership upon the Transferring General Partner's consenting to such admission and is authorized to, and will, continue the business of the Partnership without dissolution. The name and mailing address of the General Partner and the Capital Contribution of the General Partner will be reflected on the books and records of the Partnership. If at any time the Partnership has more than one General Partner, unless otherwise provided in this Agreement, any action allowed to be taken, or required to be taken, by the General Partners may be taken only with the unanimous approval of all of the General Partners.

(b) Each General Partner will serve for the duration of the term of the Partnership, unless the General Partner ceases to be a General Partner in accordance with Section 4.1 of this Agreement.

Section 2.7 Limited Partners. (a) The General Partner may admit one or more Limited Partners as of the beginning of each calendar month or at such other times as the General Partner may determine. A Person may be admitted to the Partnership as a Limited Partner without having signed this Agreement. This Agreement shall not be unenforceable by reason of it not having been signed by a person being admitted as a Limited Partner. The General Partner, in its sole and absolute discretion, may reject requests to purchase Units in the Partnership. The General Partner may, in its sole discretion, suspend or terminate the offering of the Units at any time. The books and records of the Partnership shall be revised to reflect the name and Capital Contribution of each Limited Partner that is admitted to the Partnership.

(b) Subject to Section 2.10 of this Agreement, when the entire Capital Contribution attributable to Units for which a Partner has subscribed is paid for, those Units will be deemed to be validly issued and fully paid and non-assessable.

Section 2.8 Organizational Limited Partner. Upon the admission to the Partnership of any Limited Partner, the Organizational Limited Partner shall withdraw from the Partnership as the Organizational Limited Partner and shall be entitled to the return of his Capital Contribution, if any, without interest or deduction, and shall cease to be a Limited Partner of the Partnership.

Section 2.9 Both General and Limited Partner. A Partner may be simultaneously a General Partner and a Limited Partner, in which event the Partner's rights and obligations in each capacity will be determined separately in accordance with the terms and provisions of this Agreement and as provided in the Delaware Act.

Section 2.10 Limited Liability. Except for payment obligations under this Agreement, including Capital Contribution obligations, and as provided under applicable law, a Limited Partner will not be liable for the Partnership's obligations in any amount in excess of the Limited Partner's Capital Account balance, plus the Limited Partner's share of undistributed

profits and assets. Subject to applicable law, a Limited Partner may be obligated to return to the Partnership certain amounts distributed to the Limited Partner.

Section 2.11 Directors. (a) The number of Directors at the date of this Agreement is fixed at not more than fourteen (14) Directors and no fewer than two (2). After the Closing Date, the number of Directors will be fixed from time to time by the Directors then in office, which number may be greater, or lesser, than fourteen (14), but no fewer than the minimum number of directors permitted to corporations organized under the laws of the State of Delaware, except that no reduction in the number of Directors will serve to effect the removal of any Director. Each Partner approves the delegation by the General Partner to the Directors, in accordance with Section 3.1 of this Agreement, of certain of the General Partner's rights and powers.

(b) The term of office of each Director shall be from the time of such Director's election and qualification until his or her successor shall have been elected and shall have qualified, or until his or her status as a Director is terminated sooner in accordance with Section 2.11(d) of this Agreement. Except to the extent the 1940 Act requires election by Limited Partners, if any vacancy in the position of a Director occurs, including by reason of an increase in the number of Directors as contemplated by Section 2.11(a) of this Agreement, the remaining Directors may appoint an individual to serve in that capacity in accordance with the provisions of the 1940 Act. Independent Directors will at all times constitute at least a majority (or more if required by the 1940 Act) of the Directors then serving. An Independent Director will be replaced by another Independent Director selected and nominated by the remaining Independent Directors, or in a manner otherwise permissible under the 1940 Act.

(c) If no Director remains, the General Partner will promptly call a meeting of the Partners, to be held within 60 days after the date on which the last Director ceased to act in that capacity, for the purpose of determining whether to continue the business of the Partnership and, if the business is to be continued, approving the appointment of the requisite number of Directors. If the Partners determine at the meeting not to continue the business of the Partnership, or if the approval of the appointment of the requisite number of Directors is not approved within 60 days after the date on which the last Director ceased to act in that capacity, then the Partnership will be dissolved in accordance with Section 6.1 of this Agreement and the assets of the Partnership will be liquidated and distributed in accordance with Section 6.2 of this Agreement.

(d) The status of a Director will terminate (1) if the Director dies; (2) if the Director resigns as a Director; or (3) if the Director is removed in accordance with Section 2.11(e) of this Agreement.

(e) Any Director may be removed with or without cause by a vote of a majority of the other Directors or by the vote or written consent of Limited Partners holding not less than two-thirds of the total number of votes eligible to be cast by all Limited Partners.

(f) The Directors may establish and maintain committees of the Board of Directors, and the Directors may grant to such committees the authority to, among other things: value the assets of the Partnership; select and nominate the Independent Directors of the Partnership; recommend to the Board of Directors the compensation to be paid to the Independent Directors; and recommend to the Board of Directors the firm of certified public accountants that will conduct the Partnership's audits.

(g) The Directors may establish or designate committees of the Board of Directors or the Partnership, whose members may include the Directors and/or other Persons who are not Directors, to provide advice and other services to the

Partnership, which committees may include (but are not limited to) a committee that will value the assets of the Partnership.

(h) The Independent Directors will receive compensation for their services as Independent Directors, as determined by the Board of Directors.

ARTICLE III

MANAGEMENT; ADVICE AND MANAGEMENT

Section 3.1 Management and Control. (a) The General Partner delegates to the Directors those rights and powers of the General Partner necessary for the Directors to manage and control the business affairs of the Partnership and to carry out their oversight obligations with respect to the Partnership required under the 1940 Act, state law, and any other applicable laws or regulations. Rights and powers delegated to the Directors include, without limitation, the authority as Directors to oversee and to establish policies regarding the management, conduct and operation of the Partnership's business, and to do all things necessary and proper as Directors to carry out the objective and business of the Partnership, including, without limitation, the power to engage an investment manager to provide advice and management and to remove such an investment manager, as well as to exercise any other rights and powers expressly given to the Directors under this Agreement. The Partners intend that, to the fullest extent permitted by law, and except to the extent otherwise expressly provided in this Agreement, (1) each Director is vested with the same powers and authority on behalf of the Partnership as are customarily vested in each director of a Delaware corporation and (2) each Independent Director is vested with the same powers and authority on behalf of the Partnership as are customarily vested in each director who is not an "interested person" (as that term is defined in the 1940 Act) of a closed-end, management investment company registered under the 1940 Act that is organized as a Delaware corporation. During any period

in which the Partnership has no Directors, the General Partner will manage and control the Partnership. Each Director will be the agent of the Partnership but will not, for any purpose, be a General Partner. Notwithstanding the delegation described in this Section 3.1(a), the General Partner will not cease to be the General Partner and will continue to be liable as such and in no event will a Director be considered a General Partner by agreement, estoppel or otherwise as a result of the performance of his or her duties under this Agreement or otherwise. The General Partner retains those rights, powers and duties that have not been delegated under this Agreement. Any Director may be admitted to the Partnership in accordance with Section 2.7 of this Agreement and make Capital Contributions and own Units, in which case the Director will also become a Limited Partner.

(b) The Partnership will file a tax return as a Partnership for U.S. federal income tax purposes. All decisions for the Partnership relating to tax matters including, without limitation, whether to make any tax elections (including the election under Section 754 of the Code), the positions to be made on the Partnership's tax returns and the settlement or further contest or litigation of any audit matters raised by the Internal Revenue Service or any other taxing authority, will be made by the Directors. All actions (other than ministerial actions) taken by the tax matters Partner, as designated in Section 3.1(c) below, will be subject to the approval of the Directors.

(c) The General Partner will be the designated tax matters Partner for purposes of the Code. Each Partner agrees not to treat, on his, her or its personal income tax return or in any claim for a refund, any item of income, gain, loss, deduction or credit in a manner inconsistent with the treatment of the item by the Partnership. The tax matters Partner will have the exclusive authority and discretion to make any elections required or permitted to be made by the Partnership under any provisions of the Code or any other revenue laws.

(d) No Limited Partner will have any right to participate in or take any part in the management or control of the Partnership's business, and no Limited Partner will have any right, power or authority to act for or bind the Partnership. Limited Partners will have the right to vote on any matters only as provided in this Agreement or on any matters that require the approval of the holders of voting securities under the 1940 Act and will have no right to exercise any other vote granted to Limited Partners under the Delaware Act, any such rights being vested in the Directors (or the General Partner if there are no Directors) and may be exercised without requiring the approval of the Limited Partners.

Section 3.2 Powers Reserved by the General Partner. Notwithstanding anything in this Agreement to the contrary, the General Partner retains all rights, duties and powers to manage the affairs of the Partnership that may not be delegated under Delaware law, and that are not otherwise delegated by the General Partner to the Directors or assumed by any investment manager engaged pursuant to Section 3.1(a) of this Agreement or any other Person under the

terms of any agreement between the Partnership and such investment manager or any other Person. Specifically, and without limitation, the General Partner will retain full power and authority on behalf of and in the name of the Partnership:

- (1) to issue to any Partner an instrument certifying that the Partner is the owner of Units;
- (2) to call and conduct meetings of Partners at the Partnership's principal office or elsewhere as it may determine, and to assist the Directors in calling and conducting meetings of the Directors;
- (3) to engage and terminate attorneys, accountants (subject to the provisions of the 1940 Act) and other professional advisers and consultants as the General Partner deems necessary or advisable in connection with the affairs of the Partnership or as may be directed by the Directors;
- (4) to act as tax matters Partner in accordance with Section 3.1(c) of this Agreement, and to assist in the preparation and filing of any required tax or information returns to be made by the Partnership;
- (5) as directed by the Directors, to commence, defend and conclude any action, suit, investigation or other proceeding that pertains to the Partnership or any assets of the Partnership;
- (6) as directed by the Directors, to arrange for the purchase of any insurance covering the potential liabilities of the Partnership or relating to the performance of the Directors, the General Partner, any investment manager engaged pursuant to Section 3.1(a) of this Agreement or any of their principals, Partners, directors, officers, members, employees and agents;
- (7) to execute, deliver and perform any contracts, agreements and other undertakings, and to engage in activities and transactions that are necessary or appropriate for the conduct of the business of the Partnership and to bind the Partnership by those contracts, agreements, and other undertakings, provided that any persons approved as officers of the Partnership pursuant to Section 3.3(c) of this Agreement, as directed by the Directors, may execute and deliver contracts and agreements on behalf of the Partnership and bind the Partnership to those contracts and agreements;
- (8) to make determinations regarding subscriptions for and/or the Transfer of Units, including, without limitation, determinations regarding the suspension of subscriptions, and to execute, deliver and perform subscription agreements, selling agreements relating to the sale of Units, administration agreements appointing an administrator to perform various administrative action on behalf of the Partnership, escrow agreements and custodial agreements without the consent of or notice to any other Person, notwithstanding any other provision of this Agreement;

(9) to make determinations regarding appropriate reserves to be created for the contingent, conditional or unmatured liabilities of the Partnership;

(10) as provided in Section 7.2 of this Agreement, to make determinations regarding adjustments to the computation of Net Profit or Net Loss and allocations among the Partners under Article V of this Agreement;

(11) to manage or oversee the general administrative and operational aspects of the Partnership; and

(12) as directed by the Directors, to establish additional classes of Limited Partners, General Partners, or Units having separate rights, powers, or duties with respect to specified property or obligations of the Partnership or profits or losses associated with specified property or obligations of the Partnership, and having separate business purposes or investment objectives as the Directors may determine, consistent with the 1940 Act and the Delaware Act, so long as the assets and liabilities of one class is limited to the assets and liabilities of such class.

Section 3.3 Actions by Directors. (a) Unless provided otherwise in this Agreement, the Directors will act only: (1) by the affirmative vote of a majority of the Directors (which majority will include any requisite number of Independent Directors required by the 1940 Act) present at a meeting duly called at which a quorum of the Directors is present either in person or, to the extent consistent with the provisions of the 1940 Act, by conference telephone or other communications equipment by means of which all Persons participating in the meeting can hear each other; or (2) by unanimous written consent of all of the Directors without a meeting, if permissible under the 1940 Act. A majority of the Directors then in office will constitute a quorum at any meeting of Directors.

(b) The Directors may designate from time to time a Director or any person approved as an officer of the Partnership pursuant to Section 3.3(c) of this Agreement or the General Partner who will preside at all meetings. Meetings of the Directors may be called by the General Partner, the Chairman of the Board of Directors, or any two Directors, and may be held on any date and at any time and place determined by the Directors. Each Director will be entitled to receive written notice of the date, time and place of a meeting within a reasonable time in advance of the meeting. Notice need not be given to any Director who attends a meeting without objecting to the lack of notice or who executes a written waiver of notice with respect to the meeting.

(c) The Directors may appoint from time to time agents and employees of the Partnership who will have the same powers and duties on behalf of the Partnership as are customarily vested in officers of a corporation incorporated under Delaware law, or such other powers and duties as may be designated by

the Directors, in their sole discretion, and designate them as officers or agents of the Partnership by resolution of the Directors specifying their titles or functions.

Section 3.4 Meetings of Partners. (a) Actions requiring the vote of the Partners may be taken at any duly constituted meeting of the Partners at which a quorum is present or by means of a written consent. Meetings of the Partners may be called by the General Partner, by the affirmative vote of a majority of Directors then in office, or by Partners holding at least a majority of the total number of votes eligible to be cast by all Partners, and may be held at any time, date and place determined by the General Partner in the case of meetings called by the General Partner or the Partners and at any time, date and place determined by the Directors in the case of meetings called by the Directors. In each case, the General Partner will provide notice of the meeting, stating the date, time and place of the meeting and the record date for the meeting, to each Partner entitled to vote at the meeting within a reasonable time prior to the meeting. Failure to receive notice of a meeting on the part of any Partner will not affect the validity of any act or proceeding of the meeting, so long as a quorum is present at the meeting. Except as otherwise required by applicable law, only matters set out in the notice of a meeting may be voted on by the Partners at the meeting. The presence in person or by proxy of Partners holding a majority of the total number of votes eligible to be cast by all Partners as of the record date will constitute a quorum at any meeting of Partners. In the absence of a quorum, a meeting may be adjourned to the time or times as determined by the General Partner and communicated to the Directors in the manner described above in this Section 3.4(a). Except as otherwise required by any provision of this Agreement or of the 1940 Act, (1) those candidates receiving a plurality of the votes cast at any meeting of Partners called pursuant to Section 2.11(c) of this Agreement or elected pursuant to the requirement of Section 2.11(b) will be elected as Directors and (2) all other actions of the Partners taken at a meeting will require the affirmative vote of Partners holding a majority of the total number of votes eligible to be cast by those Partners who are present in person or by proxy at the meeting.

(b) Each Partner will be entitled to cast at any meeting of Partners or pursuant to written consent a number of votes equivalent to the Partner's Investment Percentage as of the record date for the meeting or the date of the written consent. The General Partner will establish a record date not less than 10 nor more than 60 days prior to the date of any meeting of Partners or mailing (including by electronic transmission) to the Partners of any written consent, to determine eligibility to vote at the meeting and the number of votes that each Partner will be entitled to cast at the meeting, and will maintain for each record date a list setting out the name of each Partner and the number of votes that each Partner will be entitled to cast at the meeting.

(c) A Partner may vote at any meeting of Partners by a properly executed proxy transmitted to the Partnership at any time at or before the time of the meeting by telegram, telecopier or other means of electronic communication or other readable reproduction as contemplated by the provisions relating to

proxies applicable to corporations incorporated under the laws of Delaware now or in the future in effect. A proxy may be suspended or revoked, as the case may be, by the Partner executing the proxy by a later writing delivered to the Partnership at any time prior to exercise of the proxy or if the Partner executing the proxy is present at the meeting and votes in person. Any action of the Partners that is permitted to be taken at a meeting of the Partners may be taken without a meeting if consents in writing, setting out the action to be taken, are signed by Partners holding a majority of the total number of votes eligible to be cast or any greater percentage as may be required under this Agreement to approve the action.

Section 3.5 Custody of Assets of the Partnership. (a) Notwithstanding anything to the contrary in this Agreement, the General Partner will not have any authority to hold or have possession or custody of any funds, Securities or other property of the Partnership. The physical possession of all funds, Securities or other property of the Partnership will at all times be held, controlled and administered by one or more custodians retained by the Partnership. The General Partner will have no responsibility, other than that associated with the oversight and supervision of custodians retained by the Partnership, with respect to the collection of income or the physical acquisition or safekeeping of the funds, Securities or other property of the Partnership, all duties of collection, physical acquisition or safekeeping being the sole obligation of such custodians.

(b) With respect to any Advisor Fund securities held by the Partnership as of the date on which the Partnership becomes registered with the SEC as an investment company under the 1940 Act, and during any period of time in which the Partnership remains so registered, such securities shall be under the control of one or more of the Partnership's custodian(s), as may be engaged from time to time, pursuant to Section 17(f) of the 1940 Act and the rules thereunder, and no person shall be authorized or permitted to have access to such securities except in accordance with Section 17(f) of the 1940 Act and the rules thereunder, and consistent with the terms of the Partnership's agreement with the relevant Partnership custodian.

Section 3.6 Other Activities. (a) Neither the General Partner nor its principals, Partners, directors, officers, members, employees and beneficial owners nor the Directors will be required to devote full time to the affairs of the Partnership, but each will devote such time as each may reasonably be required to perform its obligations under this Agreement and under the 1940 Act.

(b) The Directors, any Partner, and any Affiliate of any Partner may engage in or possess an interest in other business ventures or commercial dealings of every kind and description, independently or with others, including, but not limited to, acquisition and disposition of Securities, provision of investment advisory or brokerage services, serving as directors, officers, employees, advisors or agents of other companies, Partners of any Partnership,

members of any limited liability company, or trustees of any trust, or entering into any other commercial arrangements. No Partner will have any rights in or to such activities of any other Partner, the Directors or any Affiliate of any Partner or any profits derived from these activities.

(c) The General Partner and its principals, Partners, directors, officers, members, employees and beneficial owners and the Directors, from time to time may acquire, possess, manage, hypothecate and dispose of Securities or other investment assets, and engage in any other investment transaction for any account over which they exercise discretionary authority, including their own accounts, the accounts of their families, the account of any entity in which they have a beneficial interest or the accounts of others for whom or which they may provide investment advisory or other services.

(d) To the extent that at law or in equity the Directors or the General Partner have duties (including fiduciary duties) and liabilities relating to those duties to the Partnership or to any other Partner or other Person bound by this Agreement, any such Person acting under this Agreement will not be liable to the Partnership or to any other Partner or other Person bound by this Agreement for its good faith reliance on the provisions of this Agreement. The provisions of this Agreement, to the extent that they restrict the duties and liabilities of the General Partner or the Directors otherwise existing at law or in equity, are agreed by the Partners to replace the other duties and liabilities of the General Partner or the Directors.

Section 3.7 Duty of Care. (a) The Directors and the General Partner, including any officer, director, Partner, member, principal, employee or agent of any of them, will not be liable to the Partnership or to any of its Partners for any loss or damage occasioned by any act or omission in the performance of the Person's services under this Agreement, in the absence of a final judicial decision on the merits from which no further right to appeal may be taken that the loss is due to an act or omission of the Person constituting willful misfeasance, bad faith, gross negligence or reckless disregard of the Person's duties under this Agreement.

(b) No Director who has been designated an "audit committee financial expert" (for purposes of Section 407 of the Sarbanes-Oxley Act of 2002 or any successor provision thereto, and any rules issued thereunder by the SEC) in the Partnership's Form N-2 or other reports required to be filed with the SEC shall be subject to any greater duty of care in discharging such Director's duties and responsibilities by virtue of such designation than is any Director who has not been so designated.

(c) Limited Partners not in breach of any obligation under this Agreement or under any agreement pursuant to which the Limited Partner subscribed for Units will be liable to the Partnership, any Partner or third parties only as required by this Agreement or applicable law.

Section 3.8 Indemnification. (a) To the fullest extent permitted by law, the Partnership will, subject to Section 3.8(c) of this Agreement, indemnify each General Partner (including for this purpose each officer, director, member, Partner, principal, employee or agent of, or any Person who controls, is controlled by or is under common control with, a General Partner (including, without limitation, Hatteras Investment Partners, LLC) or Partner of a General Partner, and their executors, heirs, assigns, successors or other legal representatives) and each Director (and his executors, heirs, assigns, successors or other legal representatives) (each such Person being referred to as an “indemnitee”) against all losses, claims, damages, liabilities, costs and expenses arising by reason of being or having been a General Partner or Director of the Partnership, or the past or present performance of services to the Partnership by the indemnitee, except to the extent that the loss, claim, damage, liability, cost or expense has been finally determined in a judicial decision on the merits from which no further right to appeal may be taken in any such action, suit, investigation or other proceeding to have been incurred or suffered by the indemnitee by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of the indemnitee’s office. These losses, claims, damages, liabilities, costs and expenses include, but are not limited to, amounts paid in satisfaction of judgments, in compromise, or as fines or penalties, and counsel fees and expenses incurred in connection with the defense or disposition of any action, suit, investigation or other proceeding, whether civil or criminal, before any judicial, arbitral, administrative or legislative body, in which the indemnitee may be or may have been involved as a party or otherwise, or with which such indemnitee may be or may have been threatened, while in office or thereafter. The rights of indemnification provided under this Section 3.8 are not to be construed so as to provide for indemnification of an indemnitee for any liability (including liability under U.S. Federal securities laws which, under certain circumstances, impose liability even on Persons that act in good faith) to the extent (but only to the extent) that indemnification would be in violation of applicable law, but will be construed so as to effectuate the applicable provisions of this Section 3.8.

(b) Expenses, including counsel fees and expenses, incurred by any indemnitee (but excluding amounts paid in satisfaction of judgments, in compromise, or as fines or penalties) may be paid from time to time by the Partnership in advance of the final disposition of any action, suit, investigation or other proceeding upon receipt of an undertaking by or on behalf of the indemnitee to repay to the Partnership amounts paid if a determination is made that indemnification of the expenses is not authorized under Section 3.8(a) of this Agreement, so long as (1) the indemnitee provides security for the undertaking, (2) the Partnership is insured by or on behalf of the indemnitee against losses arising by reason of the indemnitee’s failure to fulfill his, her or its undertaking, or (3) a majority of the Independent Directors (excluding any Director who is either seeking advancement of expenses under this Agreement or is or has been a party to any other action, suit, investigation or other proceeding involving claims similar to those involved in the action, suit, investigation or proceeding giving rise to a claim for advancement of expenses under this Agreement) or independent legal counsel in a written opinion

determines, based on a review of readily available facts (as opposed to a full trial-type inquiry), that reason exists to believe that the indemnitee ultimately will be entitled to indemnification.

(c) As to the disposition of any action, suit, investigation or other proceeding (whether by a compromise payment, pursuant to a consent decree or otherwise) without an adjudication or a decision on the merits by a court, or by any other body before which the proceeding has been brought, that an indemnitee is liable to the Partnership or its Partners by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of the indemnitee's office, indemnification will be provided in accordance with Section 3.8(a) of this Agreement if (1) approved as in the best interests of the Partnership by a majority of the Independent Directors (excluding any Director who is either seeking indemnification under this Agreement or is or has been a party to any other action, suit, investigation or proceeding involving claims similar to those involved in the action, suit, investigation or proceeding giving rise to a claim for indemnification under this Agreement) upon a determination, based upon a review of readily available facts (as opposed to a full trial-type inquiry), that the indemnitee acted in good faith and in the reasonable belief that the actions were in the best interests of the Partnership and that the indemnitee is not liable to the Partnership or its Partners by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of the indemnitee's office, or (2) the Directors secure a written opinion of independent legal counsel, based upon a review of readily available facts (as opposed to a full trial-type inquiry), to the effect that indemnification would not protect the indemnitee against any liability to the Partnership or its Partners to which the indemnitee would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of the indemnitee's office.

(d) Any indemnification or advancement of expenses made in accordance with this Section 3.8 will not prevent the recovery from any indemnitee of any amount if the indemnitee subsequently is determined in a final judicial decision on the merits in any action, suit, investigation or proceeding involving the liability or expense that gave rise to the indemnification or advancement of expenses to be liable to the Partnership or its Partners by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of the indemnitee's office. In any suit brought by an indemnitee to enforce a right to indemnification under this Section 3.8, it will be a defense that the indemnitee has not met the applicable standard of conduct described in this Section 3.8. In any suit in the name of the Partnership to recover any indemnification or advancement of expenses made in accordance with this Section 3.8, the Partnership will be entitled to recover the expenses upon a final adjudication from which no further right of appeal may be taken.

In any suit brought to enforce a right to indemnification or to recover any indemnification or advancement of expenses made in accordance with this Section 3.8, the burden of proving that the indemnitee is not entitled to be indemnified, or to any indemnification or advancement of expenses, under this Section 3.8 will be on the Partnership (or any Partner acting derivatively or otherwise on behalf of the Partnership or its Partners).

(e) An indemnitee may not satisfy any right of indemnification or advancement of expenses granted in this Section 3.8 or to which he, she or it may otherwise be entitled except out of the assets of the Partnership, and no Partner will be personally liable with respect to any such claim for indemnification or advancement of expenses.

(f) The rights of indemnification provided in this Section 3.8 will not be exclusive of or affect any other rights to which any Person may be entitled by contract or otherwise under law. Nothing contained in this Section 3.8 will affect the power of the Partnership to purchase and maintain liability insurance on behalf of any General Partner, any Director, the Investment Manager or other Person.

(g) The General Partner may enter into agreements indemnifying Persons providing services to the Partnership to the same, lesser or greater extent as set out in this Section 3.8.

Section 3.9 Fees, Expenses and Reimbursement. (a) The Partnership will compensate each Independent Director for his or her services rendered in connection with the Partnership as may be agreed to by the Independent Directors and the General Partner, and as described in the Memorandum. In addition, the Partnership will reimburse the Directors for reasonable out-of-pocket expenses incurred by them in performing their duties with respect to the Partnership.

(b) The Partnership will bear all expenses incurred in connection with its business. Expenses to be borne by the Partnership include, but are not limited to, the following:

(1) The Partnership's pro rata share of the management fee, performance allocation and other fees and expenses, of the Master Partnership;

(2) all investment-related expenses, including, but not limited to, fees paid and expenses reimbursed, directly or indirectly, to Advisors (including management fees, performance or incentive fees or allocations and redemption or withdrawal fees, however titled or structured), all costs and expenses directly related to portfolio transactions and positions for the Partnership's account, such as direct and indirect expenses associated with the Partnership's investments, including its investments in Advisor Funds (whether

or not consummated), and enforcing the Partnership's rights in respect of such investments, transfer taxes and premiums, taxes withheld on non-U.S. dividends, costs and fees for data and software (including software providers and dedicated software employed by the Partnership and designed to assist an investment manager to keep track of the investments in the Advisor Funds and Advisor Accounts), research expenses, professional fees (including, without limitation, the fees and expenses of consultants, attorneys and experts) and, if applicable, in connection with the Partnership's temporary or cash management investments, brokerage commissions, interest and commitment fees on loans and debit balances, borrowing charges on Securities sold short, dividends on Securities sold but not yet purchased and margin fees;

(3) costs associated with the registration of the Partnership, including the costs of compliance with any applicable U.S. federal and state laws;

(4) a servicing fee to be paid to the servicing agent;

(5) any non-investment-related interest expense;

(6) attorneys' fees and disbursements associated with preparing and updating any Offering Materials and with reviewing subscription materials in connection with qualifying prospective investors or prospective holders of Transferred Units;

(7) fees and disbursements of any accountants engaged by the Partnership, and expenses related to the annual audit of the Partnership and compliance with any applicable U.S. Federal or state laws;

(8) fees paid and out-of-pocket expenses reimbursed to the Partnership's administrator;

(9) recordkeeping, accounting, escrow, and custody fees and expenses;

(10) the costs of an errors and omissions/directors' and officers' liability insurance policy and a fidelity bond;

(11) the costs of preparing and mailing reports and other communications, including proxy, tender offer correspondence or similar materials, to Limited Partners;

(12) fees of Independent Directors and travel expenses of Directors relating to meetings of the Board of Directors and committees thereof, and costs and expenses of holding meetings of the Board of Directors and meetings of the Partners;

(13) all costs and charges for equipment or services used in preparing or communicating information regarding the Partnership's transactions or the valuation of its assets between the General Partner and any custodian, administrator or other agent engaged by the Partnership;

(14) any extraordinary expenses, including indemnification expenses as provided for in Section 3.8 of this Agreement;

(15) the Fund's proportionate share of the fees and expenses of the Master Partnership and the fees and expenses of the Advisor Funds and Advisor Accounts (borne indirectly by the Fund through its investment in the Master Partnership);

(16) any other expenses as may be approved from time to time by the Directors, other than those required to be borne by an investment manager or the General Partner; and

(17) the organizational and offering expenses of the Partnership which will initially be borne by Hatteras Investment Partners, LLC or an affiliate thereof and will be expensed by the Partnership upon commencement of operations. The Partnership will account for these expenditures, through monthly expense allocations (or at such other frequency or times as the Board of Directors may direct) to Limited Partners' Capital Accounts, for a period not to exceed the first sixty months after the Closing Date. The amount of each such expense allocation to the Limited Partners' Capital Accounts will be determined by the Directors and Hatteras Investment Partners, LLC and will equal an amount sufficient to reimburse the Investment Manager or affiliate thereof within a sixty-month period.

(c) The General Partner will be entitled to reimbursement from the Partnership for any of the above expenses that it pays on behalf of the Partnership, other than as provided in Section 3.9(b)(14) above.

ARTICLE IV

TERMINATION OF STATUS OF GENERAL PARTNER; REMOVAL OF GENERAL PARTNER; TRANSFERS AND REPURCHASES

Section 4.1 Termination of Status of General Partner. A General Partner will cease to be a general partner of the Partnership if the General Partner (a) is dissolved or otherwise terminates its existence; (b) voluntarily withdraws as General Partner (which it may do at any time in its sole discretion); (c) is removed; (d) Transfers all of its Units held as General Partner as permitted under Section 4.3 of this Agreement and the Person to which the Units are Transferred is admitted as a substituted General Partner under Section 2.6(a) of this Agreement; or (e) otherwise ceases to be a General Partner under the Delaware Act.

Section 4.2 Removal of General Partner. Any General Partner may be removed by the vote or written consent of Partners holding not less than 80% of the total number of votes eligible to be cast by all Partners.

Section 4.3 Transfer of Units of General Partner. A General Partner may not Transfer all or any of its Units held as the General Partner except to Persons who have agreed to be bound by all of the terms of this Agreement and applicable law. If a General Partner Transfers all of its Units held as General Partner, it will not cease to be a General Partner unless and until the transferee is admitted to the Partnership as a substituted General Partner pursuant to Section 2.6(a) of this Agreement. In executing this Agreement, each Partner is deemed to have consented to any Transfer contemplated by this Section 4.3.

Section 4.4 Transfer of Units of Limited Partners. (a) Any Units or portion of any Units held by a Limited Partner may be Transferred only (1) by operation of law pursuant to the death, bankruptcy, insolvency, adjudicated incompetence, or dissolution of the Limited Partner; or (2) under certain limited instances set out in this Agreement, with the written consent of the General Partner (which may be withheld in the General Partner's sole and absolute discretion). Unless the Partnership consults with legal counsel to the Partnership and counsel confirms that the Transfer will not cause the Partnership to be treated as a "publicly traded partnership" taxable as a corporation, however, the General Partner may not consent to a Transfer unless the following conditions are met: (i) the Transferring Limited Partner has been a Limited Partner for at least six months; (ii) the proposed Transfer is to be made on the effective date of an offer by the Partnership to repurchase Units; and (iii) the Transfer is (A) one in which the tax basis of the Units in the hands of the transferee is determined, in whole or in part, by reference to its tax basis in the hands of the Transferring Limited Partner (e.g., certain Transfers to affiliates, gifts and contributions to family entities), (B) to members of the Transferring Limited Partner's immediate family (siblings, spouse, parents and children), or (C) a distribution from a qualified retirement plan or an individual retirement account. In addition, the General Partner may not consent to a Transfer unless the Person to whom or which Units are Transferred (or each of the Person's equity owners if the Person is a "private investment company" as defined in Rule 205-3(d)(3) under the Advisers Act, an investment company registered under the 1940 Act, or a business development company as defined under the Advisers Act) is a Person whom or which the General Partner believes meets the requirements of paragraph (d)(1) of Rule 205-3 under the Advisers Act or successor provision of any of those rules, or is otherwise exempt from the requirements of those rules. In the event that other investor eligibility requirements are established by the Partnership, the Person to whom or which Units are Transferred must satisfy these other requirements. If any transferee does not meet the investor eligibility requirements described in this Section 4.4(a), the General Partner may not consent to the Transfer. In addition, no Limited Partner will be permitted to Transfer his, her or its Units unless after the Transfer the balance of the Capital Account of the transferee, and of the Limited Partner Transferring less than all of such Partner's Units, is at least equal to the amount of the Limited Partner's initial Capital Contribution. Any permitted transferee will be entitled to the allocations and distributions allocable to the Units so acquired and to Transfer the Units in accordance with the terms of this Agreement, but will not be entitled to the other rights of a Limited Partner unless and until

the transferee becomes a substituted Limited Partner. If a Limited Partner Transfers Units with the approval of the General Partner, the General Partner will promptly take all necessary actions so that each transferee or successor to whom or to which the Units are Transferred is admitted to the Partnership as a Limited Partner. The admission of any transferee as a substituted Limited Partner will be effective upon the execution and delivery by, or on behalf of, the substituted Limited Partner of this Agreement or an instrument that constitutes the execution and delivery of this Agreement. Each Limited Partner and transferee agrees to pay all expenses, including attorneys' and accountants' fees, incurred by the Partnership in connection with any Transfer. In connection with any request to Transfer Units, the Partnership may require the Limited Partner requesting the Transfer to obtain, at the Limited Partner's expense, an opinion of counsel selected by the General Partner as to such matters as the General Partner may reasonably request. If a Limited Partner Transfers all of its Units, it will not cease to be a Limited Partner unless and until the transferee is admitted to the Partnership as a substituted Limited Partner in accordance with this Section 4.4(a).

(b) Each Limited Partner will indemnify and hold harmless the Partnership, the General Partner, the Directors, each other Limited Partner and any Affiliate of the Partnership, the General Partner (including, without limitation, Hatteras Investment Partners, LLC), the Director and each of the other Limited Partners against all losses, claims, damages, liabilities, costs and expenses (including legal or other expenses incurred in investigating or defending against any losses, claims, damages, liabilities, costs and expenses or any judgments, fines and amounts paid in settlement), joint or several, to which these Persons may become subject by reason of or arising from (1) any Transfer made by the Limited Partner in violation of this Section 4.4(b) and (2) any misrepresentation by the Transferring Limited Partner or substituted Limited Partner in connection with the Transfer. A Limited Partner Transferring Units may be charged reasonable expenses, including attorneys' and accountants' fees, incurred by the Partnership in connection with the Transfer.

Section 4.5 Repurchase of Units. (a) Except as otherwise provided in this Agreement, no Partner or other Person holding Units will have the right to withdraw or tender for repurchase any of its Units. The Directors may, from time to time, in their complete and exclusive discretion and on terms and conditions as they may determine, cause the Partnership to repurchase Units in accordance with written tenders. The Partnership will not offer, however, to repurchase Units on more than four occasions during any one Fiscal Year, unless the Partnership has been advised by its legal counsel that more frequent offers would not cause any adverse tax consequences to the Partnership or the Partners. In determining whether to cause the Partnership to repurchase Units, pursuant to written tenders, the Directors will consider the following factors, among others:

- (1) whether any Partners have requested to tender Units;
- (2) the liquidity of the Partnership's assets (including fees and costs associated with withdrawing from Advisor Funds);

- (3) the investment plans and working capital and reserve requirements of the Partnership;
- (4) the relative economies of scale with respect to the size of the Partnership;
- (5) the history of the Partnership in repurchasing Units;
- (6) the availability of information as to the value of the Partnership's interests in the Advisor Funds and Advisor Accounts;
- (7) existing conditions of the securities markets and the economy generally, as well as political, national or international developments or current affairs;
- (8) the anticipated tax consequences to the Partnership of any proposed repurchases of Units;
- (9) and the recommendations of the General Partner.

The Directors will cause the Partnership to repurchase Units in accordance with written tenders only on terms fair to the Partnership and to all Partners and Persons holding Units acquired from Partners.

(b) Upon the commencement of an offer to repurchase Units, the Partnership will send an advance notification of the offer (the "Notice") to the Partners via their financial intermediaries. The Notice will specify, among other things:

- (1) the number of Units that the Partnership is offering to repurchase;
- (2) the date on which a Partner's repurchase request is due;
- (3) the Valuation Date (as defined in Section 4.5(d) below) applicable to the repurchase offer;
- (4) the date the proceeds from their Unit sales shall be due to the Partners; and
- (5) the NAV per Unit as of the date of the Notice.

(c) In no event will more than 20% of the Units of the Partnership be repurchased per quarter. A Partner who has been a Partner for less than 12 consecutive months prior to the Valuation Date of such repurchase offer, may participate in such offer subject to a penalty of up to 5% of the amount requested to be repurchased (to be netted against withdrawal proceeds). The

minimum value of a repurchase is \$50,000, subject to the discretion of the General Partner to allow otherwise. A Partner whose Units are repurchased by the Partnership will not be entitled to a return of any placement fee that was charged in connection with the Partner's purchase of the Units.

(d) Units are expected to be repurchased at their net asset value determined as of approximately June 30, September 30, December 31 and March 31, as applicable (each such date, a "Valuation Date"). Partners tendering Units for repurchase shall provide written notice of their intent to so tender by the date specified in the Notice, which date shall be approximately 65 days prior to the date of repurchase by the Partnership. Partners tendering their Units may not have all such Units accepted for repurchase by the Partnership. The Partnership may elect to repurchase less than the full amount a Partner requests to be repurchased. If a repurchase offer is oversubscribed, the Partnership may repurchase only a pro rata portion of the amount tendered by each Partner.

(e) The Directors may under certain circumstances elect to postpone, suspend or terminate an offer to repurchase Units.

(f) A Limited Partner tendering only some of its Units for repurchase will be required to maintain a minimum capital account balance of \$100,000. The Partnership may reduce the number of Units to be purchased from a Limited Partner to maintain the required minimum balance. Such minimum balance requirement may be waived by the General Partner in its sole discretion, subject to applicable federal securities laws. Additionally, the General Partner may, in its discretion, cause the Partnership to repurchase all of a Limited Partner's Units if the Limited Partner's Capital Account balance in the Partnership, as a result of repurchase or Transfer requests by the Limited Partner, is less than \$100,000 or such other minimum amount established by the General Partner from time to time in its sole discretion.

(g) Except as provided in Section 4.5(h) of this Agreement, a General Partner may tender its Units under Section 4.5(a) of this Agreement only if and to the extent that (1) the repurchase would not cause the value of the Capital Account of the General Partner to be less than the value required to be maintained under Section 5.1(b) of this Agreement and (2) in the view of legal counsel to the Partnership, the repurchase would not jeopardize the classification of the Partnership as a partnership for U.S. federal income tax purposes.

(h) If a General Partner ceases to serve in that capacity under Section 4.1 of this Agreement (other than pursuant to Section 4.1(i)) and the business of the Partnership is continued in accordance with Section 6.1(a)(2)(B) of this Agreement, the former General Partner (or its trustee or other legal representative) may, by written notice to the Directors

within 60 days of the action resulting in the continuation of the Partnership under Section 6.1(a)(2)(B), tender to the Partnership all or any of its Units. Within 30 days after the receipt of notice, the Directors will cause the Units to be repurchased by the Partnership for cash in an amount equal to the balance of the former General Partner's Capital Account or applicable portion of the Capital Account. If the former General Partner does not tender to the Partnership all of its Units as permitted by this Section 4.5(h), the Units will automatically convert to and will be treated in all respects as the Units of a Limited Partner. If the General Partner ceases to serve in this capacity under Section 4.1 of this Agreement (other than pursuant to Section 4.1(i)) and the Partnership is not continued under Section 6.1(a)(2)(B) of this Agreement, the liquidation and distribution provisions of Article VI of this Agreement will apply to the General Partner's Units.

(i) The General Partner may cause the Partnership to repurchase Units of a Limited Partner or any Person acquiring Units from or through a Limited Partner, on terms fair to the Partnership and to the Limited Partner or Person acquiring Units from or through such Limited Partner, in the event that the General Partner, in its sole discretion, determines or has reason to believe that:

(1) the Units have been Transferred in violation of Section 4.4 of this Agreement, or the Units have vested in any Person other than by operation of law as the result of the death, dissolution, bankruptcy, insolvency or adjudicated incompetence of the Limited Partner;

(2) ownership of Units by a Partner or other Person is likely to (A) cause the Partnership to be in violation of, or (B) (x) require registration of any Units under, or (y) subject the Partnership to additional registration or regulation under, the securities, commodities or other laws of the United States or any other relevant jurisdiction;

(3) continued ownership of the Units may be harmful or injurious to the business or reputation of the Partnership, the Directors, the General Partner or any of their Affiliates, or may subject the Partnership or any of the Partners to an undue risk of adverse tax or other fiscal or regulatory consequences;

(4) any of the representations and warranties made by a Partner or other Person in connection with the acquisition of the Units was not true when made or has ceased to be true;

(5) with respect to a Limited Partner subject to special regulatory or compliance requirements, such as those imposed by ERISA, the Bank Holding Company Act or certain Federal Communication Commission regulations (collectively, "Special Laws or Regulations"), such Limited Partner

will likely be subject to additional regulatory or compliance requirements under these Special Laws or Regulations by virtue of continuing to hold Units;

(6) or it would be in the best interests of the Partnership, as determined by the General Partner or the Directors, for the Partnership to repurchase the Units.

(j) Payments for accepted repurchases of Units of less than 95% of a Partner's Units generally will be paid approximately 90 days after the Valuation Date (after adjusting for fees, expenses, reserves or other allocations or repurchase) and will be subject to adjustment within 45 days after completion of the annual audit of the Partnership for the applicable Fiscal Year. Such annual audit may be delayed in the event that information necessary to complete the annual audit is not received on a timely basis from the Master Partnership or the Advisors. Payments for accepted repurchases of Units for 95% or more of a Partner's Units may be paid in two installments. Payment of an amount equal to at least 95% of the Units repurchased (after adjusting for fees, expenses, reserves or other allocations or repurchase) generally will be made approximately 90 days after the Valuation Date. Final settlement of payments in connection with the repurchased Units generally will be made within 45 days after completion of the annual audit of the Partnership for the applicable Fiscal Year. Payments in connection with repurchased Units may be delayed if such information is delayed. Notwithstanding anything to the contrary in this Section 4.5(j), the Directors, in their discretion, may cause the Partnership to pay all or any portion of the repurchase price in Securities (or any combination of Securities and cash) having a value, determined as of the date of repurchase, equal to the amount to be repurchased. All repurchases of Units will be subject to any and all conditions as the Directors may impose in their sole discretion. The General Partner may, in its discretion, cause the Partnership to repurchase all of a Limited Partner's Units, if the Limited Partner's Capital Account balance in the Partnership, as a result of repurchase or Transfer requests by the Limited Partner, is less than a minimum amount that may be established by the General Partner from time to time in its sole discretion. Subject to the procedures of this Section 4.5(j), the amount due to any Partner whose Units are repurchased will be equal to the value of the Partner's Capital Account or portion of such Capital Account, as of the applicable Valuation Date, after giving effect to all allocations to be made to the Partner's Capital Account as of that date. If all of a Limited Partner's Units are repurchased, that Limited Partner will cease to be a Limited Partner.

ARTICLE V

CAPITAL

Section 5.1 Contributions to Capital. (a) The minimum initial Capital Contribution of each Limited Partner will be \$100,000 or such other amount as the General Partner determines

from time to time. The amount of the initial Capital Contribution of each Partner will be recorded by the Partnership upon acceptance as a contribution to the capital of the Partnership. Each Limited Partner's entire initial Capital Contribution will be paid to the Partnership immediately prior to the Partnership's acceptance of the Limited Partner's subscription for Units, unless otherwise agreed by the Partnership and such Limited Partner.

(b) The Limited Partners may make additional Capital Contributions effective as of those times and in amounts as the General Partner may permit, but no Limited Partner will be obligated to make any additional Capital Contribution except to the extent provided in Sections 5.4 and 5.5 of this Agreement. Each additional Capital Contribution made by a Limited Partner (other than a contribution made pursuant to Section 5.3 or Section 5.5 of this Agreement) will be in the minimum amount of \$25,000 or such other amount as the General Partner determines from time to time.

(c) A General Partner may make additional Capital Contributions effective as of those times and in such amounts as it determines, and will be required to make additional Capital Contributions from time to time to the extent necessary to maintain the balance of its Capital Account at an amount, if any, necessary to ensure that the Partnership will be treated as a Partnership for U.S. federal income tax purposes. Except as provided in this Section 5.1 or in the Delaware Act, no General Partner will be required or obligated to make any additional contributions to the capital of the Partnership.

(d) Subject to the provisions of the 1940 Act, and except as otherwise permitted by the General Partner, (1) initial and any additional Capital Contributions by any Partner will be payable in cash or in Securities that the General Partner, in its absolute discretion, causes the Partnership to accept, and (2) initial and any additional Capital Contributions in cash will be payable in readily available funds at the date of the proposed acceptance of the contribution. The Partnership will charge each Partner making a Capital Contribution in Securities to the capital of the Partnership an amount as may be determined by the General Partner to reimburse the Partnership for any costs incurred by the Partnership by reason of accepting the Securities, and any charge will be due and payable by the contributing Partner in full at the time the Capital Contribution to which the charges relate is due. The value of contributed Securities will be determined in accordance with Section 7.3 of this Agreement as of the date of contribution.

(e) An Advisor may make Capital Contributions and own Units in the Partnership and, in so doing, will become a Limited Partner with respect to the contributions.

(f) The minimum initial and additional contributions set out in paragraphs (a) and (b) of this Section 5.1 may be increased or reduced by the General Partner from time to time. Reductions may be applied to all investors,

individual investors or to classes of investors, in each case in the sole discretion of the General Partner.

Section 5.2 Rights of Partners to Capital. No Partner will be entitled to interest on the Partner's Capital Contribution, nor will any Partner be entitled to the return of any capital of the Partnership except (a) upon the repurchase by the Partnership of the Partner's Units in accordance with Section 4.5 of this Agreement, (b) in accordance with the provisions of Section 5.5(b) of this Agreement or (c) upon the liquidation of the Partnership's assets in accordance with Section 6.2 of this Agreement. Except as specified in the Delaware Act, or with respect to distributions or similar disbursements made in error, no Partner will be liable for the return of any such amounts. To the fullest extent permitted by applicable law, no Partner will have the right to require partition of the Partnership's property or to compel any sale or appraisal of the Partnership's assets.

Section 5.3 Capital Accounts. The Partnership shall maintain a separate Capital Account on its books for each Partner. As of any date, the Capital Account of a Partner shall be equal to the NAV per Unit as of such date, multiplied by the number of Units then held by such Partner. Any amounts charged or debited against a Partner's Capital Account under Sections 5.4 and 5.5, other than among all Partners in accordance with the number of Units held by each such Partner, shall be treated as a partial redemption of such Partner's Units for no additional consideration as of the date on which the Board of Directors determines such charge or debit is required to be made, and such Partner's Units shall be reduced thereby as appropriately determined by the Partnership. Any amounts credited to a Partner's Capital Account under Sections 5.4 and 5.5, other than among all Partners in accordance with the number of Units held by each such Partner, shall be treated as an issuance of additional Units to such Partner for no additional consideration as of the date on which the Board of Directors determines such credit is required to be made, and such Partner's Units shall be increased thereby as appropriately determined by the Partnership.

Section 5.4 Allocation of Certain Withholding Taxes and Other Expenditures. (a) If the Partnership incurs a withholding tax or other tax obligation with respect to the share of Partnership income allocable to any Partner, then the General Partner, without limitation of any other rights of the Partnership or the General Partner, will cause the amount of the obligation to be debited against the Capital Account of the Partner when the Partnership pays the obligation, and any amounts then or in the future distributable to the Partner will be reduced by the amount of the taxes. If the amount of the taxes is greater than any distributable amounts, then the Partner and any successor to the Partner's Units will pay to the Partnership as a Capital Contribution, upon demand by the General Partner, the amount of the excess. A General Partner will not be obligated to apply for or obtain a reduction of or exemption from withholding tax on behalf of any Partner that may be eligible for the reduction or exemption, except that, in the event that the General Partner determines that a Partner is eligible for a refund of any withholding tax, the General Partner may, at the request and expense of the Partner, assist the Partner in applying for such refund.

(b) Except as otherwise provided for in this Agreement and unless prohibited by the 1940 Act, any expenditures payable by the Partnership, to the extent determined by the General Partner to have been paid or withheld on behalf of, or by reason of particular circumstances applicable to, one or more but fewer than all of the Partners, will be charged to only those Partners on whose behalf the payments are made or whose particular circumstances gave rise to such payments. The charges will be debited from the Capital Accounts of the Partners as of the close of the Fiscal Period during which the items were paid or accrued by the Partnership.

Section 5.5 Reserves. (a) The General Partner may cause appropriate reserves to be created, accrued and charged by the Partnership against Net Assets and proportionately against the Capital Accounts of the Partners for contingent liabilities, if any, as of the date any contingent liability becomes known to the General Partner, the reserves to be in the amounts that the General Partner in its sole discretion deems necessary or appropriate. The General Partner may increase or reduce any reserves from time to time by amounts as it in its sole discretion deems necessary or appropriate. The amount of any reserve, or any increase or decrease in a reserve, will be proportionately charged or credited to the Capital Accounts of those Persons who or that are Partners at the time the reserve is created, or increased or decreased, except that if any individual reserve item, adjusted by any increase in the item, exceeds the lesser of \$500,000 or 1% of the aggregate value of the Units of all of those Partners, then the amount of the reserve, increase or decrease may instead, at the discretion of the General Partner, be charged or credited to the Capital Accounts of those Persons who or that were Partners at the time, as determined by the General Partner in its sole discretion, of the act or omission giving rise to the contingent liability for which the reserve was established, increased or decreased in proportion to their Capital Accounts.

(b) If any amount is required by Section 5.5(a) of this Agreement to be charged or credited to a Person who or that is no longer a Partner, the amount will be paid by or to the party, in cash, with interest from the date on which the General Partner determines that the charge or credit is required. In the case of a charge, the former Partner will be obligated to pay as a Capital Contribution the amount of the charge, plus interest as provided in this Section 5.5(b), to the Partnership on demand, except that (1) in no event will a former Partner be obligated to make a payment exceeding the amount of the Partner's Capital Account at the time to which the charge relates and (2) no demand will be made after the expiration of three years from the date on which the Person ceased to be a Partner. To the extent that a former Partner fails to pay to the Partnership, in full, any amount required to be charged to the former Partner under Section 5.5(a) of this Agreement, the deficiency will be charged proportionately to the Capital Accounts of the Partners at the time of the act or omission giving rise to the charge to the extent feasible, and otherwise proportionately to the Capital Accounts of the current Partners.

Section 5.6 Allocation to Avoid Capital Account Deficits. To the extent that any debits under Sections 5.4 through 5.5 of this Agreement would reduce the balance of the Capital Account of any Limited Partner below zero, that portion of any such debits will be

allocated instead to the Capital Account of the General Partner. Any credits in any subsequent Fiscal Period that otherwise would be allocable under Sections 5.4 through 5.5 of this Agreement to the Capital Account of any Limited Partner previously affected by the application of this Section 5.6 will instead be allocated to the Capital Account of the General Partner in amounts necessary to offset all previous debits attributable to the Limited Partner, made in accordance with this Section 5.6, that have not been recovered.

Section 5.7 Allocations Prior to Closing Date. Any net cash profits or any net cash losses realized by the Partnership from the purchase or sale of Securities during the period ending on the day prior to the Closing Date will be allocated to the Capital Account of the General Partner. No unrealized item of profit or loss will be allocated under this Section 5.7 to the Capital Account of any Partner.

Section 5.8 Tax Allocations. For each taxable year of the Partnership, items of income, deduction, gain, loss or credit will be allocated for income tax purposes among the Partners in a manner so as to reflect equitably amounts credited or debited to each Partner's Capital Account for the current and prior taxable years (or relevant portions of those years). Allocations under this Section 5.8 will be made in accordance with the principles of Sections 704(b) and 704(c) of the Code, and in conformity with Treasury Regulations promulgated under these Sections, or the successor provisions to such Sections and Regulations. Notwithstanding anything to the contrary in this Agreement, the Partnership will allocate to the Partners those gains or income necessary to satisfy the "qualified income offset" requirement of Treasury Regulations Section 1.704-1(b)(2)(ii)(d). If the Partnership realizes net capital gains for U.S. federal income tax purposes for any taxable year during or as of the end of which one or more Positive Basis Partners (as defined in this Section 5.8) withdraw from the Partnership under Article IV or VI of this Agreement, the General Partner may elect to allocate net gains as follows: (a) to allocate net gains among Positive Basis Partners, in proportion to the Positive Basis (as defined in this Section 5.8) of each Positive Basis Partner, until either the full amount of the net gains has been so allocated or the Positive Basis of each Positive Basis Partner has been eliminated, and (b) to allocate any net gains not so allocated to Positive Basis Partners to the other Partners in a manner that reflects equitably the amounts credited to the Partners' Capital Accounts. If the Partnership realizes capital losses for U.S. federal income tax purposes for any Fiscal Year during or as of the end of which one or more Negative Basis Partners (as defined in this Section 5.8) withdraw from the Partnership under Article IV or VI of this Agreement, the General Partner may elect to allocate net losses as follows: (i) to allocate net losses among Negative Basis Partners, in proportion to the Negative Basis (as defined in this Section 5.8) of each Negative Basis Partner, until either the full amount of net losses will have been so allocated or the Negative Basis of each Negative Basis Partner has been eliminated, and (ii) to allocate any net losses not so allocated to Negative Basis Partners, to the other Partners in a manner that reflects equitably the amounts credited to the Partners' Capital Accounts. As used in this Section 5.8, the term "Positive Basis" means, with respect to any Partner and as of any time of calculation, the amount by which the total of the Partners' Capital Accounts as of that time exceeds the Partner's "adjusted tax basis," for U.S. federal income tax purposes, in the Partner's Units in the Partnership as of that time (determined without regard to any adjustments made to the "adjusted tax basis" by reason of

any Transfer or assignment of Units, including by reason of death). As used in this Section 5.8, the term “Positive Basis Partner” means any Partner who or that withdraws from the Partnership and who or that has a Positive Basis as of the effective date of the Partner’s withdrawal. As used in this Section 5.8, the term “Negative Basis” means, with respect to any Partner and as of any time of calculation, the amount by which the Partner’s “adjusted tax basis,” for U.S. federal income tax purposes, in the Partner’s Units in the Partnership as of that time (determined without regard to any adjustments made to the “adjusted tax basis” by reason of any Transfer or assignment of Units , including by reason of death, and without regard to such Partner’s share of the liabilities of the Partnership under section 752 of the Code) exceeds the Partner’s Capital Account as of such time. As used in this Section 5.8, the term “Negative Basis Partner” means any Partner who or that withdraws from the Partnership and who or that has a Negative Basis as of the effective date of the Partner’s withdrawal.

Section 5.9 Distributions. (a) The General Partner may cause the Partnership to make distributions in cash or in kind at any time to all of the Partners on a proportionate basis in accordance with the Partners’ Investment Percentages.

(b) The General Partner may withhold taxes from any distribution to any Partner to the extent required by the Code or any other applicable law. For purposes of this Agreement, any taxes so withheld by the Partnership with respect to any amount distributed by the Partnership to any Partner will be deemed to be a distribution or payment to the Partner, reducing the amount otherwise distributable to the Partner under this Agreement and reducing the Capital Account of the Partner. Neither the General Partner nor the Directors will be obligated to apply for or obtain a reduction of or exemption from withholding tax on behalf of any Partner that may be eligible for reduction or exemption. To the extent that a Partner claims to be entitled to a reduced rate of, or exemption from, a withholding tax pursuant to an applicable income tax treaty, or otherwise, the Partner will furnish the Partnership with any information and forms that the Partner may be required to complete if necessary to comply with any and all laws and regulations governing the obligations of withholding tax agents. Each Partner represents and warrants that any information and forms furnished by the Partner will be true and accurate and agrees to indemnify the Partnership and each of the Partners from any and all losses, claims, damages, liabilities costs and expenses resulting from the filing of inaccurate or incomplete information or forms relating to the withholding taxes (including legal or other expenses incurred in investigating or defending against any such losses, claims, damages, liabilities, costs and expenses).

(c) Notwithstanding any provision to the contrary contained in this Agreement, the Partnership and the General Partner on behalf of the Partnership will not repurchase any Units or make a distribution to any Partner on account of the Partner’s Units, if such repurchase or distribution would violate the Delaware Act or other applicable law.

ARTICLE VI

DISSOLUTION AND LIQUIDATION

Section 6.1 Dissolution. (a) The Partnership will be dissolved if at any time it has no Limited Partners or upon the occurrence of any of the following events:

(1) upon the affirmative vote to dissolve the Partnership by both (A) a majority of the Directors (including the vote of a majority of the Independent Directors) and (B) Partners holding at least two-thirds of the total number of votes eligible to be cast by all Partners;

(2) upon either of: (A) an election by the General Partner to dissolve the Partnership or (B) a General Partner's ceasing to be a General Partner in accordance with Section 4.1 of this Agreement (other than in conjunction with a Transfer of the Units of a General Partner in accordance with Section 4.3 of this Agreement to a Person who or that is admitted as a substituted General Partner under Section 2.6(a) of this Agreement), unless, as to the event described in clause (B) of this Section 6.1(a)(2), (i) the Partnership has at least one other General Partner who or that is authorized to and does carry on the business of the Partnership, or (ii) both the Directors and Partners holding not less than two-thirds of the total number of votes eligible to be cast by all Partners elect within 60 days after the event to continue the business of the Partnership and a Person to be admitted to the Partnership, effective as of the date of the event, as an additional General Partner who has agreed to make the contributions to the capital of the Partnership required to be made under Section 5.1(c) of this Agreement;

(3) upon the failure of Partners to approve successor Directors at a meeting called by the General Partner in accordance with Section 2.11(c) of this Agreement when no Director remains to continue the business of the Partnership; or

(4) as otherwise required by operation of law.

Dissolution of the Partnership will be effective on the later of the day on which the event giving rise to the dissolution occurs or, to the extent permitted by the Delaware Act, the conclusion of any applicable 60-day period during which the Directors and Partners elect to continue the business of the Partnership as provided in Section 6.1(a)(2), but the Partnership will not terminate until the assets of the Partnership have been liquidated in accordance with Section 6.2 of this Agreement and the Certificate has been canceled.

(b) Except as provided in Section 6.1(a) of this Agreement or in the Delaware Act, the death, adjudicated incompetence, dissolution, termination, liquidation, bankruptcy, reorganization, merger, sale of substantially all of the stock or assets of, or other change in the ownership or nature of a Partner, the admission to the Partnership of a new Partner, the withdrawal of a Partner from the Partnership,

or the Transfer by a Partner of the Partner's Units to a third party will not cause the Partnership to dissolve.

Section 6.2 Liquidation of Assets. (a) Upon the dissolution of the Partnership as provided in Section 6.1 of this Agreement, the General Partner will promptly liquidate the business and administrative affairs of the Partnership, except that if the General Partner is unable to perform this function, a liquidator elected by Partners holding a majority of the total number of votes eligible to be cast by all Partners and whose fees and expenses will be paid by the Partnership will promptly liquidate the business and administrative affairs of the Partnership. Subject to the Delaware Act, the proceeds from liquidation (after establishment of appropriate reserves for all claims and obligations, including all contingent, conditional or unmatured claims and obligations in an amount that the General Partner or liquidator deems appropriate in its sole discretion as applicable) will be distributed in the following manner:

(1) the debts of the Partnership, other than debts, liabilities or obligations to Limited Partners, and the expenses of liquidation (including legal and accounting fees and expenses incurred in connection with the liquidation), up to and including the date on which distribution of the Partnership's assets to the Partners has been completed, will first be paid on a proportionate basis;

(2) any debts, liabilities or obligations owing to the Limited Partners will be paid next in their order of seniority and on a proportionate basis; and

(3) the Partners are paid next on a proportionate basis the positive balances of their Capital Accounts after giving effect to all allocations to be made to the Partners' Capital Accounts for the Fiscal Period ending on the date of the distributions under this Section 6.2(a)(3).

(b) Notwithstanding the provisions of this Section 6.2, upon dissolution of the Partnership, subject to the Delaware Act and the priorities set out in Section 6.2(a) of this Agreement, the General Partner or liquidator may distribute ratably in kind any assets of the Partnership. If any in-kind distribution is to be made under this Section 6.2(b), (1) the assets distributed in kind will be valued in accordance with Section 7.3 of this Agreement as of the actual date of their distribution and charged as so valued and distributed against amounts to be paid under Section 6.2(a) of this Agreement, and (2) any profit or loss attributable to property distributed in kind will be included in the Net Profit or Net Loss for the Fiscal Period ending on the date of the distribution. Notwithstanding any provision of this Agreement to the contrary, the General Partner may compel a Partner to accept a distribution of any asset in kind from the Partnership even if the percentage of the asset distributed to the Partner exceeds a percentage of the asset that is equal to the percentage in which the Partner shares in distributions from the Partnership.

ARTICLE VII

ACCOUNTING, VALUATIONS AND BOOKS AND RECORDS

Section 7.1 Accounting and Reports. (a) The Partnership will adopt for tax accounting purposes any accounting method that the General Partner decides in its sole discretion is in the best interests of the Partnership. The Partnership's accounts will be maintained in U.S. currency.

(b) As soon as practicable after the end of each taxable year of the Partnership, the Partnership will furnish to Partners information regarding the operation of the Partnership and the Partners' Units as is necessary for Partners to complete U.S. Federal and state income tax or information returns and any other tax information required by U.S. Federal or state law. To the extent such information may be delayed due to delayed reporting by Advisors with whom the Partnership invests (through the Master Partnership), the Partners may be required to file extensions of the filing dates for their income tax returns at the Federal, state and local levels.

(c) Except as otherwise required by the 1940 Act, or as may otherwise be permissible under other applicable law, the Partnership will furnish to each Limited Partner a semiannual report and an annual report containing the information required by the 1940 Act as soon as practicable. The Partnership will cause financial statements contained in each annual report furnished under this Section 7.1 to be accompanied by a certificate of independent public accountants based upon an audit performed in accordance with generally accepted accounting principles. The Partnership may furnish to each Partner any other periodic reports the General Partner deems necessary or appropriate in its discretion.

(d) The General Partner will notify the Directors of any change in the holders of interests of the General Partner within a reasonable time after the change.

Section 7.2 Determinations by General Partner. (a) All matters concerning the determination and allocation among the Partners of the amounts to be determined and allocated pursuant to Article V of this Agreement, including any taxes on those amounts and accounting procedures applicable with respect to those amounts, will be determined by the General Partner unless specifically and expressly otherwise provided for by the provisions of this Agreement or as required by law. Any such determinations and allocations will be final and binding on all of the Partners.

(b) The General Partner may make any adjustments to the computation of Net Profit and/or Net Loss, or any components (withholding any items of income, gain, loss or deduction) constituting Net Profit and/or Net Loss as the General Partner deems appropriate to reflect fairly and accurately the financial results of the Partnership and the intended allocation of Net Profit and/or Net Loss among the Partners.

Section 7.3 Valuation of Assets. (a) Except as may be required by the 1940 Act, the Directors will value or cause to have valued any Securities or other assets and liabilities of the

Partnership as of the close of business on the last day of each Fiscal Period and at such other times as the Directors may determine, in their discretion, in accordance with valuation procedures as established from time to time by the Directors. Assets of the Partnership invested in an Advisor Fund or Advisor Account will be valued in accordance with the terms and conditions of the agreement or other document governing the operation of the Advisor Fund or Advisor Account. In determining the value of the assets of the Partnership, no value will be placed on the goodwill or name of the Partnership, or the office records, files, statistical data or any similar intangible assets of the Partnership not normally reflected in the Partnership's accounting records. Any items of income earned but not received, expenses incurred but not yet paid, liabilities fixed or contingent, and any other prepaid expenses to the extent not otherwise reflected in the books of account, and the value of options or commitments to purchase or sell Securities or commodities pursuant to agreements entered into prior to the valuation date will, however, be taken into account in determining the value of the Partnership's assets.

(b) Subject to the provisions of the 1940 Act, the value of Securities and other assets of the Partnership and the net asset value of the Partnership as a whole determined pursuant to this Section 7.3 will be conclusive and binding on all of the Partners and all Persons claiming through or under them.

ARTICLE VIII

MISCELLANEOUS PROVISIONS

Section 8.1 Amendment of Partnership Agreement. (a) Except as otherwise provided in this Section 8.1, this Agreement may be amended, in whole or in part, with the approval of a majority of the Directors (including the vote of a majority of the Independent Directors, but only if such vote is required by the 1940 Act), except that any amendment also must be approved by a majority (as defined in the 1940 Act) of the outstanding voting securities of the Partnership if such vote is required by the 1940 Act.

(b) Any amendment that would:

(1) increase the obligation of a Partner to make any Capital Contribution,

(2) reduce the Capital Account of a Partner other than in accordance with Article V of this Agreement, or

(3) modify the events causing the dissolution of the Partnership, may be made only if (A) the written consent of each Partner adversely affected by the proposed action is obtained prior to the effectiveness of the action or (B) the amendment does not become effective until (i) each Limited Partner has received written notice of the amendment and (ii) any Limited Partner objecting to the amendment has been afforded a reasonable opportunity (under

procedures prescribed by the General Partner in its sole discretion) to tender the all of the Partner's Units for repurchase by the Partnership. Notwithstanding the preceding sentence or the provisions of Subsection 8.1(c), any amendment that would alter the provisions of Section 8.1 relating to the material amendment of this Agreement or the provisions of Section 3.8 of this Agreement relating to indemnification may be made only with the unanimous consent of the Partners and, to the extent required by the 1940 Act, approval of a majority of the Directors (and, if so required, a majority of the Independent Directors).

(c) Notwithstanding the provisions of Sections 8.1(a) and 8.1(b) of this Agreement, the General Partner, at any time without the consent of any other Partner, may:

(1) restate this Agreement, together with any amendments to this Agreement that have been duly adopted in accordance with the provisions of this Agreement to incorporate the amendments in a single, integrated document;

(2) amend this Agreement (other than with respect to the matters described in Section 8.1(b) of this Agreement) to change the name of the Partnership in accordance with Section 2.2 hereof or to effect compliance with any applicable law or regulation, including, but not limited to, to satisfy the requirements of applicable U.S. banking law or regulation, or to cure any ambiguity or to correct or supplement any provision of this Agreement, so long as the action does not adversely affect the rights of any Partner in any material respect; and

(3) amend this Agreement to make any changes necessary or desirable, based on advice of legal counsel to the Partnership, to assure the Partnership's continuing eligibility to be classified for U.S. federal income tax purposes as a Partnership that is not treated as a corporation for tax purposes under the Code; subject, however, to the limitation that any material amendment to this Agreement under Section 8.1(c)(2) or (3) of this Agreement will be valid only if approved by a majority of the Directors (including the vote of a majority of the Independent Directors, if required by the 1940 Act).

(d) The General Partner will give prior written notice of any proposed amendment to this Agreement (other than any amendment of the type contemplated by Section 8.1(c) of this Agreement) to each Partner, which notice sets out (1) the text of the proposed amendment or (2) a summary of the amendment and a statement that the text of the amendment will be furnished to any Partner upon request.

Section 8.2 Special Power of Attorney. (a) Each Partner irrevocably makes, constitutes and appoints the General Partner and each of the Directors, acting severally, and any

liquidator of the Partnership's assets appointed pursuant to Section 6.2 of this Agreement with full power of substitution, the true and lawful representatives and attorneys-in-fact of, and in the name, place and stead of, the Partner, with the power from time to time to make, execute, sign, acknowledge, swear to, verify, deliver, record, file and/or publish:

(1) any amendment to this Agreement;

(2) any amendment to the Certificate, including, without limitation, any such amendment required to reflect any amendments to this Agreement, and including, without limitation, an amendment to effectuate any change in the membership of the Partnership; and

(3) all other such instruments, documents and certificates that, in the view of legal counsel to the Partnership, from time to time may be required by the laws of the United States of America, the State of Delaware or any other jurisdiction in which the General Partner determines that the Partnership should do business, or any political subdivision or agency of any such jurisdiction, or that legal counsel may deem necessary or appropriate to effectuate, implement and continue the valid existence and business of the Partnership as a limited partnership under the Delaware Act.

(b) Each Partner is aware that the terms of this Agreement permit certain amendments to this Agreement to be effected and certain other actions to be taken or omitted by or with respect to the Partnership without the Partner's consent. Each Partner agrees that if an amendment to the Certificate or this Agreement or any action by or with respect to the Partnership is taken in the manner contemplated by this Agreement, notwithstanding any objection that the Partner may assert with respect to the action, the attorneys-in-fact appointed under this Agreement are authorized and empowered, with full power of substitution, to exercise the authority granted in this Section 8.2 in any manner that may be necessary or appropriate to permit the amendment to be made or action lawfully taken or omitted. Each Partner is fully aware that each Partner will rely on the effectiveness of this special power of attorney with a view to the orderly administration of the affairs of the Partnership.

(c) The power of attorney contemplated by this Section 8.2 is a special power of attorney and is coupled with an interest in favor of the General Partner and each of the Directors, acting severally, and any liquidator of the Partnership's assets appointed under Section 6.2 of this Agreement, and as such the power of attorney:

(1) will be irrevocable and continue in full force and effect notwithstanding the subsequent death or incapacity of any Person granting the power of attorney, regardless of whether the Partnership, the General Partner, the Directors or any liquidator has had notice of the death or incapacity; and

(2) will survive the delivery of a Transfer by a Partner of the Partner's Units, except that, when the transferee of Units has been approved by

the General Partner for admission to the Partnership as a substituted Partner, the power of attorney given by the transferor will survive the delivery of the assignment for the sole purpose of enabling the General Partner, the Directors or any liquidator to execute, acknowledge and file any instrument necessary to effect the substitution.

Section 8.3 Notices. Notices that may or are required to be provided under this Agreement will be made to a Partner by hand delivery, regular mail (registered or certified mail return receipt requested in the case of notice to the General Partner), commercial courier service, telecopier, or electronic mail (with a confirmation copy by registered or certified mail in the case of notices to the General Partner by telecopier or electronic mail), and will be addressed to the Partner at his, her or its address as set out in the books and records of the Partnership (or to any other address as may be designated by any Partner by notice addressed to the General Partner in the case of notice given to any Partner, and to each of the Partners in the case of notice given to the General Partner). Notices will be deemed to have been provided when delivered by hand, on the date indicated as the date of receipt on a return receipt or when received if sent by regular mail, commercial courier service, telecopier or by electronic mail. A document that is not a notice and that is required to be provided under this Agreement by any party to another party may be delivered by any reasonable means.

Section 8.4 Agreement Binding Upon Successors and Assigns. This Agreement will be binding upon and inure to the benefit of the Partners and their respective heirs, successors, assigns, executors, trustees or other legal representatives, but the rights and obligations of the Partners may not be Transferred or delegated except as provided in this Agreement, and any attempted Transfer or delegation of those rights and obligations that is not made in accordance with the terms of this Agreement will be void.

Section 8.5 Choice of Law; Arbitration. (a) Notwithstanding the location at which this Agreement is executed by any of the Partners, the Partners expressly agree that all the terms and provisions of this Agreement are governed by and will be construed under the laws of the State of Delaware, including the Delaware Act, without regard to the conflict of law principles of the State of Delaware.

(b) To the extent such action is consistent with the provisions of the 1940 Act and any other applicable law, except as provided in Section 8.10(b) of this Agreement, each Partner agrees to submit all controversies arising between or among Partners or one or more Partners and the Partnership in connection with the Partnership or its businesses or concerning any transaction, dispute or the construction, performance or breach of this Agreement or any other agreement relating to the Partnership, whether entered into prior to, on or subsequent to the date of this Agreement, to arbitration in accordance with the provisions set out in this Section 8.5. EACH PARTNER UNDERSTANDS THAT ARBITRATION IS FINAL AND BINDING ON THE PARTNERS AND THAT THE PARTNERS IN EXECUTING THIS AGREEMENT ARE WAIVING THEIR RIGHTS TO SEEK REMEDIES IN COURT, INCLUDING THE RIGHT TO JURY TRIAL.

(c) Controversies will be finally settled by, and only by, arbitration in accordance with the commercial arbitration rules of the American Arbitration Association (the “AAA”) to the fullest extent permitted by law. The place of arbitration will be Raleigh, North Carolina. Any arbitration under this Section 8.5 will be conducted before a panel of three arbitrators. The Partner or Partners initiating arbitration under this Section 8.5 will appoint one arbitrator in the demand for arbitration. The Partner or Partners against whom or which arbitration is sought will jointly appoint one arbitrator within 30 Business Days after notice from the AAA of the filing of the demand for arbitration. The two arbitrators nominated by the Partners will attempt to agree on a third arbitrator within 30 Business Days of the appointment of the second arbitrator. If the two arbitrators fail to agree on the third arbitrator within the 30-day period, then the AAA will appoint the third arbitrator within 30 Business Days following the expiration of the 30-day period. Any award rendered by the arbitrators will be final and binding on the Partners, and judgment upon the award may be entered in the supreme court of the state of New York and/or the U.S. District Court for the Southern District of New York, or any other court having jurisdiction over the award or having jurisdiction over the Partners or their assets. The arbitration agreement contained in this Section 8.5 will not be construed to deprive any court of its jurisdiction to grant provisional relief (including by injunction or order of attachment) in aid of arbitration proceedings or enforcement of an award. In the event of arbitration as provided in this Section 8.5, the arbitrators will be governed by and will apply the substantive (but not procedural) law of Delaware, to the exclusion of the principles of the conflicts of law of Delaware. The arbitration will be conducted in accordance with the procedures set out in the commercial arbitration rules of the AAA. If those rules are silent with respect to a particular matter, the procedure will be as agreed by the Partners, or in the absence of agreement among or between the Partners, as established by the arbitrators. Notwithstanding any other provision of this Agreement, this Section 8.5(c) will be construed to the maximum extent possible to comply with the laws of the State of Delaware, including the Uniform Arbitration Act (10 Del. C Section 5701 et seq.) (the “Delaware Arbitration Act”). If, nevertheless, it is determined by a court of competent jurisdiction that any provision or wording of this Section 8.5(c), including any rules of the AAA, are invalid or unenforceable under the Delaware Arbitration Act or other applicable law, such invalidity will not invalidate all of this Section 8.5(c). In that case, this Section 8.5(c) will be construed so as to limit any term or provision so as to make it valid or enforceable within the requirements of the Delaware Arbitration Act or other applicable law, and, in the event such term or provision cannot be so limited, this Section 8.5(c) will be construed to omit such invalid or unenforceable provision.

Section 8.6 Not for Benefit of Creditors. The provisions of this Agreement are intended only for the regulation of relations among past, existing and future Partners, their assignees and the Partnership. This Agreement is not intended for the benefit of non-Partner creditors and, except to the extent provided in Section 3.8 of this Agreement, no rights are granted to non-Partner creditors under this Agreement.

Section 8.7 Consents. Any and all consents, agreements or approvals provided for or permitted by this Agreement (including minutes of any meeting) must be in writing and a signed copy of any such consent, agreement or approval will be filed and kept with the books of the Partnership.

Section 8.8 Merger and Consolidation. (a) The Partnership may merge or consolidate with or into one or more limited partnerships formed under the Delaware Act or other business entities under an agreement of merger or consolidation that has been approved in the manner contemplated by the Delaware Act.

(b) Notwithstanding anything to the contrary in this Agreement, an agreement of merger or consolidation approved in accordance with the Delaware Act may, to the extent permitted by the Delaware Act, (1) effect any amendment to this Agreement, (2) effect the adoption of a new Partnership agreement for the Partnership if it is the surviving or resulting limited partnership in the merger or consolidation, or (3) provide that the Partnership agreement of any other constituent Partnership to the merger or consolidation (including a limited partnership formed for the purpose of consummating the merger or consolidation) will be the Partnership agreement of the surviving or resulting limited partnership.

(c) The Partnership may convert to another Delaware business entity in accordance with the Delaware Act upon the approval of the Partners representing a majority (as defined in the 1940 Act) of the outstanding voting securities of the Partnership.

Section 8.9 Pronouns. All pronouns used in this Agreement will be deemed to refer to the masculine, feminine, neuter, singular or plural, as the identity of the Person or Persons, firm or entity may require in the context in which they are used.

Section 8.10 Confidentiality. (a) A Limited Partner may obtain from the General Partner, upon reasonable demand for any purpose reasonably related to the Limited Partner's interest in the Partnership, information regarding the affairs of the Partnership as is just and reasonable under the Delaware Act, subject to reasonable standards (including standards governing the information and documents to be furnished, at what time and location and at whose expense) established by the General Partner in its sole discretion.

(b) Each Limited Partner agrees in executing this Agreement that, except as required by applicable law or any regulatory body, the Limited Partner will not divulge, furnish or make accessible to any other Person the name or address (whether business, residence or mailing) of any Limited Partner (collectively, "Confidential Information") without the prior written consent of the General Partner, which consent may be withheld in its sole discretion.

(c) Each Partner recognizes that in the event that this Section 8.10 is breached by any Partner or any of its principals, Partners, members, directors, officers, employees or agents or any of the Partner's Affiliates, including any of the Affiliate's

principals, Partners, members, directors, officers, employees or agents, irreparable injury may result to the non-breaching Partners and the Partnership. In recognition of that irreparable injury, any non-breaching Partner may have, in addition to any and all other remedies at law or in equity to which the non-breaching Partner and the Partnership may be entitled, the right to obtain equitable relief, including, without limitation, injunctive relief, to prevent any disclosure of Confidential Information, plus reasonable attorneys' fees and other litigation expenses incurred in connection with obtaining the equitable relief. If any non-breaching Partner or the Partnership ("Initiating Non-Breaching Party") determines that any other Partner or any of that Partner's principals, Partners, members, directors, officers, employees or agents or any of the Partner's Affiliates, including any of the Affiliates' principals, Partners, members, directors, officers, employees or agents, should be enjoined from or required to take any action to prevent the disclosure of Confidential Information, each of the other non-breaching Partners agrees to join the non-breaching Initiating Non-Breaching Party in pursuing injunctive relief in a court of appropriate jurisdiction.

(d) The General Partner will have the right to keep confidential from the Limited Partners, for any period of time as the General Partner deems reasonable in its sole discretion, any information that the General Partner reasonably believes to be in the nature of trade secrets or other information the disclosure of which the General Partner in good faith believes is not in the best interest of the Partnership or could damage the Partnership or its business or that the Partnership is required by law or by agreement with a third party to keep confidential.

Section 8.11 Certification of Non-Foreign Status. Each Limited Partner or transferee of an Units from a Limited Partner who or that is admitted to the Partnership in accordance with this Agreement will certify, upon admission to the Partnership and at any other time as the General Partner may request, whether the Limited Partner or transferee is a "United States Person" within the meaning of the Code on forms to be provided by the Partnership, and will notify the Partnership within 30 days of any change in the status of the Limited Partner or transferee. Any Limited Partner or transferee who or that fails to provide certification when requested to do so by the General Partner may be treated as a non-United States Person for purposes of U.S. Federal tax withholding.

Section 8.12 Severability. Each Partner agrees that the Partner intends that, if any provision of this Agreement is determined by a court of competent jurisdiction or regulatory authority with jurisdiction over the Partnership or the General Partner not to be enforceable in the manner set out in this Agreement, then the provision should be enforceable to the maximum extent possible under applicable law. If any provision of this Agreement is held to be invalid or unenforceable, the invalidation or unenforceability will not affect the validity or enforceability of any other provision of this Agreement (or portion of the provision).

Section 8.13 Entire Agreement. This Agreement constitutes the entire agreement among the Partners pertaining to the subject matter of this Agreement and supersedes all prior agreements and understandings pertaining to that subject matter. Notwithstanding any other

provision of this Agreement, including Section 8.1, each Partner, in executing this Agreement, acknowledges and agrees that the General Partner, on its own behalf or on behalf of the Partnership, without the approval of the Limited Partners or any other Person, may enter into a written agreement or agreements with any other Partner, executed contemporaneously with the admission of the other Partner to the Partnership, affecting or modifying the terms of, or establishing rights under, this Agreement or any subscription agreement. Each Partner agrees that any terms contained in any such other agreement with another Partner will govern with respect to the other Partner notwithstanding the provisions of this Agreement or any subscription agreement, and that the Partner will have no rights in respect of those granted in favor of such other Partner.

Section 8.14 Discretion. To the fullest extent permitted by law, whenever in this Agreement a Person is permitted or required to make a decision (a) in its “sole discretion” or “discretion” or under a grant of similar authority or latitude, the Person will be entitled to consider only those interests and factors as he, she or it desires, including his, her or its own interests, and, to the fullest extent permitted by law, will have no duty or obligation to give any consideration to any interest of or factors affecting the Partnership or the Limited Partners, or (b) in its “good faith” or under another express standard, then the Person will act under the express standard and will not be subject to any other or different standards imposed by this Agreement or any other agreement contemplated by this Agreement or by relevant provisions of law or in equity or otherwise.

Section 8.15 Conflicts. The Partners acknowledge and agree that the General Partner and its Affiliates may engage in activities in which their respective interests or the interests of their clients may conflict with the interests of the Partnership or the Limited Partners, and that the resolution of such conflicts may not always be resolved by the General Partner or its Affiliates in favor of the Partnership or the Limited Partners.

Section 8.16 Counterparts. This Agreement may be executed in several counterparts, all of which together will constitute one agreement binding on all Partners, notwithstanding that all the Partners have not signed the same counterpart.

Section 8.17 Headings. The headings in this Agreement are included for convenience of reference only and in no way define or delimit any of the provisions of this Agreement or otherwise affect their construction or effect.

[Remainder of Page Intentionally Left Blank]

IN EXECUTING THIS AGREEMENT, EACH PARTNER ACKNOWLEDGES HAVING READ THIS AGREEMENT IN ITS ENTIRETY BEFORE SIGNING, INCLUDING THE PRE-DISPUTE ARBITRATION CLAUSES SET OUT IN SECTION 8.5 AND THE CONFIDENTIALITY CLAUSES SET OUT IN SECTION 8.10.

The Partners have executed this Agreement as of the day and year first above written.

GENERAL PARTNER:
HATTERAS INVESTMENT MANAGEMENT LLC

By: /s/ David B. Perkins
Name: David B. Perkins
Title: Managing Member

ORGANIZATIONAL LIMITED PARTNER

By: /s/ David B. Perkins
Name: David B. Perkins

LIMITED PARTNERS:
Each Person who or that has signed, or has had signed on the Person's behalf, a Limited Partner Signature Page, which will constitute a counterpart of this Agreement.



PRIVACY POLICY

FACTS	WHAT DOES HATTERAS FUNDS DO WITH YOUR PERSONAL INFORMATION?
Why?	Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.
What?	<p>The types of personal information we collect and share depend on the product or service you have with us. This information can include:</p> <ul style="list-style-type: none"> • Social Security number • account balances • account transactions • transaction history • wire transfer instructions • checking account information <p>When you are <i>no longer</i> our customer, we continue to share your information as described in this notice.</p>
How?	All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information; the reasons Hatteras Funds chooses to share; and whether you can limit this sharing.

REASONS WE CAN SHARE YOUR PERSONAL INFORMATION	DOES HATTERAS FUNDS SHARE?	CAN YOU LIMIT THIS SHARING?
For our everyday business purposes – such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	Yes	No
For our marketing purposes – to offer our products and services to you	No	We don't share
For joint marketing with other financial companies	No	We don't share
For our affiliates' everyday business purposes – information about your transactions and experiences	Yes	No
For our affiliates' everyday business purposes – information about your creditworthiness	No	We don't share



HATTERAS
FUNDS

For our affiliates to market to you	No	We don't share
For non-affiliates to market to you	No	We don't share

QUESTIONS?	Call 919.846.2324 or go to www.hatterasfunds.com
-------------------	---

WHAT WE DO

Who is providing this notice?	Funds advised by Hatteras entities. A complete list is included below.
How does Hatteras Funds protect my personal information?	To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.
How does Hatteras Funds collect my personal information?	<p>We collect your personal information, for example, when you</p> <ul style="list-style-type: none"> ▪ open an account ▪ provide account information ▪ give us your contact information ▪ make a wire transfer ▪ tell us where to send the money <p>We also collect your information from others, such as credit bureaus, affiliates, or other companies.</p>
Why can't I limit all sharing?	<p>Federal law gives you the right to limit only</p> <ul style="list-style-type: none"> ▪ sharing for affiliates' everyday business purposes – information about your creditworthiness ▪ affiliates from using your information to market to you ▪ sharing for non-affiliates to market to you <p>State laws and individual companies may give you additional rights to limit sharing.</p>

DEFINITIONS

Affiliates	<p>Companies related by common ownership or control. They can be financial and nonfinancial companies.</p> <ul style="list-style-type: none"> ▪ <i>Our affiliates include companies with a Hatteras name, such as Hatteras Investment Partners, LLC, Hatteras Capital Investment Management, LLC and Hatteras Alternative Mutual Funds, LLC, registered investment advisers; Hatteras Capital Distributors, LLC, a registered broker-dealer; and unregistered funds managed by Hatteras entities such as Hatteras Multi-Strategy 3(c)(1) Fund, L.P., Hatteras Multi-Strategy Offshore Fund, Ltd., Hatteras GPEP Fund, L.P. and Hatteras Late Stage VC Fund I, L.P.</i>
-------------------	---



HATTERAS
FUNDS

Non-affiliates	Companies not related by common ownership or control. They can be financial and nonfinancial companies. <ul style="list-style-type: none">▪ <i>Hatteras Funds doesn't share with non-affiliates so they can market to you.</i>
Joint marketing	A formal agreement between nonaffiliated financial companies that together market financial products or services to you. <ul style="list-style-type: none">▪ <i>Hatteras Funds doesn't jointly market.</i>

LIST OF FUNDS PROVIDING THIS NOTICE

Hatteras Core Alternatives Fund, L.P., Hatteras Core Alternatives TEI Fund, L.P., Hatteras Core Alternatives Institutional Fund, L.P., Hatteras Core Alternatives TEI Institutional Fund, L.P., Hatteras Global Private Equity Partners Institutional, LLC, Hatteras GPEP Fund II, LLC, Hatteras Sector Select Fund, Hatteras Sector Select Institutional Fund, Hatteras VC Co-Investment Fund II, LLC, and Hatteras Alternative Mutual Funds Trust.