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DMR Mortgage Opportunity Fund LP

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM N-2

/X/ REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940
Amendment No. 1

(Check appropriate box or boxes.)

DMR MORTGAGE OPPORTUNITY FUND LP
(Exact Name Of Registrant As Specified In Charter)
1800 Tysons Boulevard, Suite 200
McLean, Virginia 22102
(Address Of Principal Executive Offices)
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(Registrant's Telephone Number, Including Area Code)

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EXPLANATORY NOTE

This Registration Statement has been filed by the Registrant pursuant to Section 8(b) of the Investment Company Act of 1940, as amended (the “1940 Act”). Beneficial interests in the Registrant are not presently being registered under the Securities Act of 1933, as amended (the “1933 Act”), because such interests have been issued solely in private placement transactions that do not involve any “public offering” within the meaning of Section 4(2) of the 1933 Act. However, the Registrant’s Board (as defined herein) intends to cause the Registrant, on or around the end of the Draw Period (as defined herein), to register the interests under the 1933 Act, and publicly offer up to \$50 million of interests to certain “Eligible Public Offering Investors” (as described below) unless at such time the Board determines that adequate investment opportunities for the Registrant are no longer available. Investments in the Registrant may be made only by an Eligible Investor who must be (i) an institutional “accredited investor,” as defined in Regulation D under the 1933 Act; and (ii) a “qualified client,” as defined in Rule 205-3 of the Investment Advisers Act of 1940, as amended (the “Advisers Act”), except as otherwise determined by the Fund. This Registration Statement does not constitute an offer to sell, or the solicitation of an offer to buy, any beneficial interests in the Registrant.

DMR MORTGAGE OPPORTUNITY FUND LP

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This registration statement of DMR Mortgage Opportunity Fund LP contains the following documents:

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PART A

OCTOBER 27, 2008

Responses to Items 1, 2, 3.2, 4, 5, 6, and 7 of Part A have been omitted pursuant to Paragraph 3 of Instruction G of the General Instructions to Form N-2.

ITEM 3.1. – FEE TABLE AND SYNOPSIS.

Annual Expenses (as a percentage of net assets attributable to the limited partnership interests of the Fund (the “Interests”))	
Management	1.50%
Fees(1)	
Other	0.263%
Expenses**(2)	
Total Annual	1.763%
Expenses**	

**Based on Capital Commitments of \$312,200,000 as of September 22, 2008.

(1) Declaration (as defined below) will be paid an amount equal to 20% of any net gain on fund investments (the “Carried Interest”). For tax purposes, the Carried Interest will be allocated (and subsequently distributed) by the Fund to Declaration as an allocable share of the Fund’s income and gains. As a result, the Fund’s income and gains allocated to the Limited Partners for tax purposes will be reduced by the amount of the Carried Interest. Please see “Priority of Distributions” included in Item 9.1(b) below for a more complete description of the Carried Interest.

(2) The Fund is charged an Administrative Services Fee of up to 0.07% of assets under management (which fee is allocated *pro rata* among the Limited Partners) payable to LaSalle Bank National Association. The table assumes the maximum Administrative Services Fee (i.e., the Fund has assets under management of \$0 - \$300,000,000) is charged. Investments are subject to an Administrative Services Fee in the amounts set forth below:

Assets under Management of the Fund	Administrative Services Fee
\$0 - \$300,000,000	0.07%
\$300,000,001 or more	0.06%

The following hypothetical example is intended to compare the cost of investing in the Fund with the cost of investing in other funds. The example assumes that all distributions are reinvested at net asset value and that the percentage amounts listed under annual expenses remain the same in the years shown. The tables and the assumption in the hypothetical example of a 5% annual return are required by regulations 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 Interests. The example reflects no allocation by the Fund to Declaration of the Carried Interest, since the assumed 5% annual returns is less than the Hurdle Hard Return as described in Item 9.1(f). The Carried Interest depends on the Fund’s future net capital appreciation.

The following example should not be considered a representation of past or future expenses, because actual expenses may be greater or less than those shown.

Example

You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return(1)	<u>1 YEAR</u>	<u>3 YEARS</u>	<u>5 YEARS</u>	<u>10 YEARS</u>
	\$19	\$58	\$102	\$233

- (1) Actual expenses may be higher or lower than the amounts shown in the fee table and, consequently, the actual expenses incurred by an investor may be greater or less than the amounts shown in the Example.

ITEM 8. – GENERAL DESCRIPTION OF THE REGISTRANT.

DMR Mortgage Opportunity Fund LP (the “Fund”) is recently organized closed-end, non-diversified management investment company organized as a limited partnership under the laws of the State of Delaware on April 7, 2008. Interests in the Fund are issued solely in private placement transactions that do not involve any “public offering” within the meaning of Section 4(2) of the Securities Act of 1933, as amended (the “1933 Act”). Investments in the Registrant may be made only by an Eligible Investor who must be (i) an institutional “accredited investor,” as defined in Regulation D under the 1933 Act; and (ii) a “qualified client,” as defined in Rule 205-3 of the Investment Advisers Act of 1940, as amended (the “Advisers Act”), except as otherwise determined by the Fund. This Registration Statement, as amended, does not constitute an offer to sell, or the solicitation of an offer to buy, any “security” within the meaning of the 1933 Act.

Declaration Management & Research LLC, a Delaware limited liability company that serves as the adviser of the Fund (“Declaration” or the “Adviser”) proposes and the Board intends to cause the Fund, on or around the end of the Draw Period (as defined herein), to register the Interests under the 1933 Act, and publicly offer up to \$50 million of Interests (the “Public Offering”) to certain “Eligible Public Offering Investors” (as described below) unless at such time the Board determines that adequate investment opportunities for the Fund are no longer available. Each “Eligible Public Offering Investor” will be required to meet the qualifications specified in the Fund’s 1933 Act registration statement. Among other qualifications, each Eligible Public Offering Investor must be a “qualified client,” as defined in Rule 205-3 of the Advisers Act.

The Fund’s investment objective is to provide investors with attractive returns through long-biased opportunistic investing in stressed, distressed and other undervalued mortgage-backed securities and related fixed-income assets. It is anticipated that the Fund’s returns (if any) will be captured through the cash flow generated by the securities it acquires at discounted prices and through capital appreciation.

Declaration employs a “bottom-up” approach to security selection, seeking to identify assets which may be acquired at prices below their intrinsic value. Declaration will acquire investments deliberately over a 12- to 24-month period, utilizing analysis at the loan level and modeling the structural characteristics of each transaction. Declaration has a value orientation in security selection, seeking a margin of safety or cushion between likely, estimated performance expectations and extreme loss outcomes. This value orientation is particularly applicable to the Fund, which has been formed to invest in an opportunity set characterized by material undervaluations of a number of credit instruments, and is based on practical experience that quantitative models and base case loss and prepayment assumptions do not fully describe risk. In determining a reasonable purchase price for assets, Declaration seeks an expected return profile which should hold up to a margin of slippage in its loss forecasts.

The Fund is not diversified, but rather has been formed as a “special purpose vehicle” in an attempt to capitalize on mortgage credit market conditions that began in 2007 and that are ongoing as of the date of this Registration Statement. The Fund seeks to produce consistent absolute returns by applying an asset-level bottom-up analysis combined with multiple stress scenario analysis to find value

opportunities in mortgage credit markets. Declaration believes that there are numerous opportunities in the mortgage credit markets that can allow the Fund to benefit from favorable changes in prepayment speeds, default rates and structural step-downs.

The Fund invests in debt securities that are sold at a discount, including non-investment grade and non-rated securities. These investments consist primarily of residential mortgage-backed securities, commercial mortgage-backed securities, second lien loans and structured finance collateralized debt obligations, but also may include mortgage-related corporate credits and other mortgage-related investments. The Fund also may employ interest rate and credit derivatives for risk mitigation.

The Fund may not incur any indebtedness for borrowed money.

The Interests are highly speculative and illiquid securities involving substantial risk of loss. The Fund is a concentrated “special purpose vehicle” investment formed in an effort to capitalize on a relatively narrow opportunity set in the credit markets. The Interests are offered only to institutional investors for which an investment in the Fund does not represent a complete investment program or a material portion of the risk segment of their portfolios and who fully understand and are capable of assuming the complex risks of an investment in the Fund, including the material difficulty in valuing certain of the Fund’s investments and the concentrated nature of its portfolio. The following considerations, which do not purport to be a complete description of any of the particular risks referred to or a complete list of all risks involved in an investment in the Fund, should be carefully evaluated before determining whether to invest in the Fund.

Certain Principal Risks Associated with an Investment in the Fund

An investment in the Fund involves a high degree of risk. There can be no assurance that the Fund will achieve its objective or avoid substantial or total loss, or that a Limited Partner (as defined herein) will not lose all or substantially all of its investment.

The Fund trades and invests in credit instruments which Declaration believes are trading at a substantial discount to “fair value” (including expected cash flows) in large part due to the currently unsettled conditions in the credit markets. Any strategy designed to profit from unusually depressed pricing in certain assets can involve an unusually high degree of risk as it is impossible to predict the resolution (if any) at which the markets will arrive for such unsettled circumstances. A number of private investment funds and proprietary investors have incurred severe losses trading in credit markets, due to economic crises, retroactive taxation, governmental intervention in the markets and other factors.

Among the risks which prospective investors should note are certain of the principal risks associated with an investment in the Fund. These, and certain other risks associated with an investment in the Fund, are identified under: (1) General Risks; (2) Credit Market Risks; (3) Strategy Risks; (4) Certain Risks Associated with Instruments Traded; (5) Certain Risks Associated with Trading and Investing Techniques; and (6) Structural Risks. However, prospective investors should note that the list of risk factors discussed in this Registration Statement is illustrative only and does not purport to be complete; nor does it purport to explain rather than simply identify certain of the risks of an investment in the Fund.

General Risks

Risk of Loss

The Fund may incur substantial or even total losses.

Limited Operating History; Concentrated Strategy

The Fund has limited operating history. Moreover, Declaration has not previously implemented a strategy for any other fund as concentrated as that used for the Fund. If a material number of the Fund's holdings experience losses above those estimated by Declaration at their acquisition, then the Fund will not achieve its objective. Unlike a fund implementing an ongoing trading strategy, the Fund is essentially making a single "bet" on a pool of illiquid credit instruments based on Declaration's analysis that these securities are materially undervalued. See "Risk Factors – Strategy Risk," and "Risk Factors – Certain Risks Associated with Trading and Investing Techniques."

First Registered Investment Company Sponsored by Declaration

Declaration has not previously operated a registered investment company. Doing so may involve operational difficulties and costs that are different from responsibilities that Declaration has assumed with respect to non-registered funds.

Interest-Rate Exposure

The Fund is exposed to interest rate risk in several dimensions. Many debt instruments are subject to declines in value if interest rates increase, while others may decline in value as interest rates decrease. In the case of the credit instruments acquired by the Fund, there is the further concern that the likelihood of default on the mortgages, leases, etc. increases when interest rates rise. Also, the likelihood of mortgage refinancings and prepayments diminishes as interest rates rise, increasing the duration of the asset-backed securities held by the Fund, further decreasing their value as well as their sensitivity to further interest-rate rises and potential defaults. See "Risk Factors – Certain Risks Associated with Instruments Traded."

Closed-End Fund; Limited Liquidity; Interests Not Listed

The Fund is a closed-end, non-diversified, management investment company designed primarily for long-term investment and is not intended to be a trading vehicle. Investors should not invest in the Fund if they need a liquid investment. Closed-end funds differ from open-end management investment companies (commonly known as mutual funds) in that investors in a closed-end fund do not have the right to redeem their investment. The Fund has been organized as a closed-end fund due to, among other reasons, the illiquid nature of the Fund's investments.

The Fund does not intend to list its Interests for trading on any national securities exchange. There is no secondary trading market for the Interests, and none is expected to develop. The Interests are, therefore, not readily marketable. Because the Fund is a closed-end investment company, its Interests are not redeemable at the option of the Fund's limited partners (each, a "Partner" or a "Limited Partner"), and they are not exchangeable for interests of any other fund. In addition, the Interests may not be transferred without first obtaining the consent of Declaration, which will be granted if the transferee is an Eligible Investor, the Transfer is permitted under applicable securities law restrictions and the transfer will not result in the Fund constituting a publicly traded partnership for tax purposes. As a result, the Interests are

considerably less liquid than shares of funds that trade on a stock exchange, or shares of open-end investment companies.

An investment in the Fund is suitable only for investors who can bear the risks associated with the limited liquidity of the Interests and the investments of the Fund. Also, because the Interests are not listed on any securities exchange, the Fund is not required, and does not intend, to hold annual meetings of its Limited Partners.

The Public Offering also will not create any secondary market in the Interests.

Non-Diversified Status Under the 1940 Act

The Fund is a “non-diversified” investment company. Thus, there are no limitations imposed by the 1940 Act on the percentage of the Fund’s assets that may be invested in the securities of any one issuer. Moreover, the Fund is subject to only the limited investment guidelines described under “*The Fund’s Investment Objective and Strategies — Fundamental Investment Restrictions*” and “*— Non-Fundamental Investment Restrictions*” included in the SAI. This may result in the Fund’s investment portfolio being more susceptible to a single economic, political, or regulatory occurrence than would be the case if the Fund were operated as a diversified investment company.

Proposed Public Offering

Declaration proposes to cause the Fund to make the Public Offering of up to \$50 million of Interests on or around the end of the Draw Period, which will end on or before May 15, 2009, unless at such time the Board determines that adequate investment opportunities for the Fund are no longer available. Due to the significant component of its total portfolio which is expected to consist of non-readily marketable illiquid positions, economic dilution may result from the Fund’s issuance of Interests in return for funds invested in a Public Offering occurring a number of months after the private offering. In addition, the earlier investors will have been subject to the considerable risk of the Fund’s positions for the period during which subsequent investors are accepted into the Fund pursuant to the Public Offering. The extent of dilution risk will depend on the accuracy of the Net Asset Value used in connection with issuing Interests in the Public Offering. The “Net Asset Value” of the Fund is calculated by taking into account all assets and liabilities of the Fund, including administration, insurance, legal, audit and other professional fees and expenses. There is also a risk that the Fund may need substantive changes to its terms in response to the SEC’s comments during the Securities Act registration process.

Counterparties and Brokers

The financial institutions and counterparties, including banks and brokerage firms, with which the Fund trades or invests, may encounter financial difficulties and default on their respective obligations to the Fund. Any such default could result in material losses to the Fund. The unsettled credit markets, have, in fact, called into question the financial stability of a number of established counterparties and brokers. Even if the Fund does not actually lose capital on deposit with a given broker or counterparty, financial difficulties incurred by such entity could cause material losses to the Fund by impeding the Fund’s ability to execute the transactions necessary to limit losses or capitalize on market opportunities.

Bankruptcy and Insolvency

Due to the severely depressed conditions in the mortgage market, the default rate on the mortgages underlying many of the securities acquired by the Fund has risen dramatically. The Fund may invest in mortgage- or mortgage-industry related corporate credit instruments which Declaration believes

to be undervalued, such undervaluation resulting directly from the volatile illiquidity of the credit markets. The Fund will not be able to liquidate its positions on an economically viable basis until market conditions improve.

It is not possible to predict when, if ever, the mortgage market will return to historical default rates.

Custody Risk

The Fund typically does not control the custodianship of all of its securities. The securities and other assets of the Fund may be held by a number of qualified custodians. The banks selected to act as custodians may become insolvent, causing the Fund to lose all or a portion of its assets held by those parties. The bankruptcy of Refco LLC and the related customer losses have indicated that even funds which investors may have believed were subject to regulatory protection may be subject to the insolvency of the dealers or counterparties with which such funds are maintained.

A portion of the Fund's assets may be privately issued and/or uncertificated for which there is no qualified custodian (for example, loans). Such assets will be held in the name of the Fund, but will not be held by a qualified custodian.

Reliance on Corporate Management and Financial Reporting

The Fund may trade corporate debt instruments and asset-backed securities ("ABS"), residential mortgage-backed securities ("RMBS"), commercial mortgage-backed securities ("CMBS") and credit default swaps ("CDS"). Declaration may select investments for the Fund in part on the basis of information and data filed by issuers of securities with various government regulators or made directly available to Declaration by the issuers of securities or through sources other than the issuers such as collateral pool servicers. Although Declaration evaluates all such information and data and seeks independent corroboration when it considers it appropriate and reasonably available, Declaration is not in a position to confirm the completeness, genuineness or accuracy of such information and data, and in some cases, complete and accurate information is not readily available. Declaration is dependent upon the integrity of the management of these issuers and of such servicers and the financial and collateral performance reporting processes in general. Recent events have demonstrated the material losses which investors such as the Fund can incur as a result of corporate mismanagement, fraud and accounting irregularities.

Declaration has no ability independently to verify the underwriting standard applied to the mortgage loans underlying the securities which the Fund has or will acquire. One of the primary causes of the current disruption in the credit markets has been the realization that the underwriting standards applied to sub-prime and Alt-A mortgages appear to have been in many cases inadequate.

Unspecified Use of Capital Contributions

The Capital Contributions (as defined below) are intended to be used for investments which will be selected by Declaration. Limited Partners will not have an opportunity to evaluate for themselves the relevant economic, financial or other information regarding the investments made by the Fund.

Intense and Focused Competition

Numerous institutional investors as well as private investment funds have recognized the potential opportunities created by the current dislocations in the credit markets and have formed "special

purpose vehicles” similar to the Fund in an effort to capitalize on such dislocations. Many of these investors and funds have resources substantially in excess of those available to the Fund and also have already been formed and so have the advantage of being in the market before the Fund. There can be no assurance that the Fund will be able to successfully compete with investment products similar to the Fund that are formed by such investors, or that the Fund will have access to sufficient investment opportunities as it deploys its capital.

Capital Deployment Risk

The Fund’s primary purpose is to acquire a portfolio of undervalued, illiquid mortgage credit instruments in markets that are currently disrupted or expected to exhibit disruption in the future. It is possible that the Fund will be too late in deploying its capital, so that market opportunities may be contracted by the time it acquires its investments. Conversely, it may be that the best market opportunities arise after the Fund’s capital has been fully invested. The Fund is subject to a dimension of timing risk to which other Declaration clients are not, as they implement ongoing strategies rather than a strategy designed to take advantage of a single market opportunity.

Changing Market Conditions

The current dislocations in the credit markets may be short-lived, and the Fund may not be able to become fully (or even substantially) invested before the dislocations are resolved.

Limited Partners are committed to the Fund until its complete liquidation, and each Limited Partner is, except in the unlikely circumstance of a Key Person Event (as defined herein), committed to make Capital Contributions up to the full amount of its Capital Commitment (as defined herein) through May 15, 2009, despite potentially material changes in the economic climate, the Fund, Declaration and/or in their own financial condition and portfolio objectives.

Credit Market Risks

Market Risks in General

The Fund has been formed in an attempt to take advantage of dislocations in the credit markets stemming from a number of factors, including the increasing delinquency rate on many types of mortgage loans. The credit market dislocations have led to otherwise highly-rated debt instruments becoming substantially unmarketable and a general contraction in the amount of new credit available for a wide range of otherwise highly regarded borrowers.

Declaration attempts to acquire credit instruments trading at a significant discount to their intrinsic value. If such cash flows are not, in fact, realized due to defaults in the underlying mortgages, the Fund’s strategy will fail.

Investing in disrupted markets is premised on the view that eventually markets will return to what had previously been the norm. There can be no assurance, however, that a fundamental change has not occurred in the credit markets so that the positions acquired by the Fund at what it believes to be a material discount to fair value are in fact worth no more (and, possibly, substantially less) than the value at which the Fund acquires such positions.

Lack of Liquidity

The Fund's portfolio is and will be illiquid. Lack of liquidity can make it economically unfeasible for the Fund to recognize profits on open positions or to close out open positions against which the market is moving. In addition, illiquidity can disrupt the historical price relationships on which certain of the Fund's strategies are based; the fewer transactions that take place the greater the risk of market values not reflecting true pricing relationships or fair value. Lack of liquidity also increases valuation risk.

Positions with No Readily Available Value

The Fund's positions are acquired because Declaration believes that the market value for any such position is materially less than its intrinsic value. Valuation of some of these positions is necessarily based on Declaration's estimates and models and may prove to be materially inaccurate. If the credit instruments acquired by the Fund are not, in fact, paid in accordance with their tenor, the Fund could sustain material losses.

Investing in Market Disruptions

The Fund's plan of operation is to invest in the credit markets, which are currently disrupted and in a state of distress. This is a high-risk strategy because, by definition, the markets in which the Fund will invest are not operating in a manner consistent with traditional trading patterns. The risk of loss from pricing distortions is compounded by the fact that in disrupted markets many positions become illiquid.

Market disruptions caused by unexpected natural catastrophes, political, military and terrorist events may from time to time cause dramatic losses for the Fund, and such events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk.

The high-risk nature of the Fund's portfolio makes the Fund particularly vulnerable to market disruptions as well as major investor migration trends away from entering emerging markets to "quality" instruments. During periods of market disruption, investments in the credit markets have historically and are likely again to incur major losses.

Strategy Risks

Concentrated Strategy

The Fund has been formed to take advantage of the current dislocation in the mortgage credit markets by acquiring materially undervalued debt instruments which have the potential to generate attractive cash flow from interest and/or return of principal. The Fund's success will be determined primarily by Declaration's ability to identify these instruments and the soundness of Declaration's presumption that such instruments will generate attractive cash flow relative to their credit risks.

This core strategy — given its singleness of purpose — is subject to an unusually high degree of risk and may be fundamentally flawed. For example, the most desirable positions may be acquired by competitors before the Fund is ready to invest, forcing the Fund to invest in higher-risk instruments than Declaration had intended.

High or Increasing Loan-to-Value Ratio May Impact RMBS Loss and Delinquency Rates More than Loans Originated Under More Traditional Standards

The underwriting guidelines pursuant to which the RMBS were originated do not prohibit a borrower from obtaining, at the time of origination of the first-lien mortgage loan, additional financing which is subordinate to that first-lien mortgage loan. High loan-to-value ratios may make it more difficult for a borrower to make payments under the related mortgage loans. Additionally, values of mortgaged properties may decrease from the time that the mortgage loan is originated, resulting in a higher loan-to-value ratio. A decrease in the value of the mortgaged property may limit the borrower's ability to refinance the mortgage loan which in turn, may lead to a default on the mortgage loan. In either case, the high loan-to-value ratios may have a greater effect on the delinquency, foreclosure, bankruptcy and loss experience of the mortgage loans in the mortgage pool than on mortgage loans originated in a more traditional manner. Declaration cannot be certain that the values of the related mortgaged properties have remained or will remain at the levels in effect on the dates of origination of the related mortgage loans.

Recent Developments in the Residential Mortgage Market

There have been and continue to be severe disruptions in the mortgage market in the United States. The bulk of mortgages originated in recent years were sold to the capital markets through securitizations, resulting in the originators of these mortgages transferring the originators' exposure to the credit risk of the mortgage borrowers to the investors in these securitizations. As a result, it is reasonable to assume that the originators could have financial incentives to maximize the amount of loans originated irrespective of the credit quality of the borrowers.

The delinquency rate on many types of mortgage loans has risen over the past year or more, a trend which may be expected to continue as the general rise in housing prices in the 2000-2005 period continues to flatten or reverse, reducing the incentives of the borrowers (especially non-resident borrowers who acquired the properties subject to mortgage as a speculation) to pay their mortgages as due. Mortgage securitizations typically issue a number of tranches of debt, certain of which become impaired at a relatively low default rate on the underlying pool of mortgages. A significant amount of mortgage securitization debt currently is trading at well below face value.

Another factor that may result in higher delinquency rates and losses in the future is the increase in monthly payments on adjustable rate mortgage loans. Borrowers with adjustable rate mortgage loans are being exposed to increased monthly payments when the related mortgage interest rate adjusts upward from the initial fixed rate or a low introductory rate, as applicable, to the rate computed in accordance with the applicable index and margin. This increase in borrowers' monthly payments, together with any increase in prevailing market interest rates, may result in significantly increased monthly payments for borrowers with adjustable rate mortgage loans.

Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. A decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance, and in addition, many mortgage loans have prepayment premiums that inhibit refinancing. Furthermore, borrowers who intend to sell their homes on or before the expiration of the fixed rate periods on their mortgage loans may find that they cannot sell their properties for an amount equal to or greater than the unpaid principal balance of their loans. These events, alone or in combination, may contribute to higher delinquency rates and losses.

In addition, numerous residential mortgage loan originators have recently experienced serious financial difficulties and, in some cases, bankruptcy.

Several laws, regulations and rules currently impose certain requirements on lenders and servicers of loans. On the basis of such provisions, enforcement actions and other litigation have been brought against some mortgage lenders and servicers, resulting in requirements and an environment that may make it more difficult for creditors to collect or foreclose on mortgages in their portfolios. In addition, numerous laws, regulations and rules related to the servicing of mortgage loans, including foreclosure actions, have been proposed and/or enacted recently by federal, state and local governmental authorities. If litigation under existing provisions continues to proliferate and new provisions are enacted, these laws, regulations and rules may delay the foreclosure process, reduce payments by borrowers or increase reimbursable servicing expenses, which are likely to result in delays and reductions in the distributions to be made to the Fund as an investor in RMBS or CDOs backed by RMBS. The Fund and other similarly-situated investors will bear the risk that these future regulatory developments and litigation and enforcement actions will result in losses on their investments, whether due to delayed or reduced distributions or reduced market value.

One such development was the enactment of the federal Emergency Economic Stabilization Act (EESA), which was signed into law on October 3, 2008. The EESA provides \$700 billion to the U.S. Secretary of the Treasury to purchase from financial institutions (a term that does not explicitly include hedge funds, but may be interpreted broadly by the Secretary of the Treasury to include certain hedge funds) certain troubled assets, including troubled residential and commercial mortgages and any securities, obligations or other instruments that are based on such mortgages. In addition, the EESA also includes certain provisions aimed at minimizing foreclosures. Among other things, the EESA requires Secretary of the Treasury and certain other Federal agencies, such as the Federal Reserve Board and the Federal Deposit Insurance Corporation, to the extent they buy troubled mortgages and other assets secured by residential real estate, to implement plans that seek to maximize assistance to homeowners and encourage servicers of mortgages underlying obligations or pools of obligations secured by residential mortgages to take advantage of programs to minimize foreclosures. The EESA also requires the Secretary of the Treasury in certain circumstances to consent, where appropriate considering the net present value to the taxpayer, to reasonable requests for loss mitigation, including term extension, rate reductions and principal write downs where appropriate and authorizes the Secretary of the Treasury to use loan guarantees and credit enhancements to facilitate loan modifications to prevent avoidable foreclosures. Lastly the EESA contains certain other provisions to encourage servicers of pooled residential mortgage loans to consider proposals for reasonable loss mitigation actions, which may include accepting partial payments.

Another recent development was the Federal Housing Finance Agency's issuance of an interim final rule, which took effect on October 17, 2008, that allows the Federal Home Loan Banks temporarily to use funds that they are required to set aside from their prior year's net earnings for their affordable housing programs to assist in the refinancing eligible mortgages through the HOPE for Homeowners Program. The HOPE for Homeowners Program allows FHA-approved lenders to refinance eligible loans that will qualify for FHA insurance if the amount of the loan is reduced to no more than 90 percent of the currently approved value of the property. The final rule initially implementing and providing core requirements for the HOPE for Homeowners Program became effective on October 6, 2008.

Further, the financial stability of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), two of the largest purchasers of mortgages in the secondary market, has been questioned. On September 7, 2008, in response to these concerns, the U.S. Department of Treasury announced a plan aimed at preventing the failure of Fannie Mae and Freddie Mac. This plan, among other things, appointed the Federal Housing Finance Agency (FHFA) as conservator of both companies, requires the companies to shrink their mortgage portfolios beginning in 2010 and makes funds available to backstop capital shortfalls that may be experienced by the two companies. These actions are intended to stabilize the mortgage lending markets. However, the

ultimate effect of this plan is yet unknown, particularly to the extent those entities begin to reduce their purchases and guarantees of mortgages in the future. Any change in the liquidity, financial stability or level of secondary market activity of Fannie Mae or Freddie Mac may affect the value of the Fund's investment in RMBS or CDOs backed by RMBS.

Limited Liquidity in the Secondary Markets

The mortgage securities markets are currently experiencing unprecedented disruptions resulting from reduced investor demand for mortgage loans and mortgage-backed securities and increased investor yield requirements for those loans and securities. As a result, the secondary market for mortgage-backed securities is experiencing extremely limited liquidity. These conditions may continue or worsen in the future.

If only a portion of issued securities has been sold to the public, the market for such securities may be illiquid because of the small amount of such securities held by the public. In addition, the market overhang created by the existence of securities that the market is aware may be sold to the public in the near future could adversely affect the Fund's ability to sell and/or the price of such securities.

Issuer-Specific Risk

The Fund acquires debt securities issued by particular special purpose vehicles and other companies. As such, the Fund is exposed not only to the risk of the mortgage credit markets in general not recovering but of the specific issuers whose securities the Fund acquires defaulting. Even though the basic premise of Declaration in forming the Fund as a "special purpose vehicle" to invest in undervalued debt may be sound, the Fund may eventually incur material losses as well as underperform other funds formed for the same purpose due to Declaration's issuer-specific securities selection.

Potential for Insufficient Investment Opportunities

Declaration may not be able to secure a sufficient number of investment opportunities to use the full amount of the Capital Commitments. The activity of identifying, completing and realizing attractive investments on a global basis is competitive and involves a high degree of uncertainty. The availability of investment opportunities generally will be subject to market conditions as well as to the prevailing regulatory and political climate.

Projections

The Fund may make investments relying upon projections developed by Declaration concerning a given credit instrument's future performance and cash flow. Projections are inherently uncertain and subject to factors beyond the control of Declaration and the issuer in question. The inaccuracy of certain assumptions, the failure to satisfy certain financial requirements and the occurrence of unforeseen events could impair the ability of a portfolio company to realize projected values and/or cash flow.

Expedited Transactions

Investment analyses and decisions by Declaration will often be undertaken on an expedited basis in order for the Fund to take advantage of investment opportunities. In such cases, the information available to the firm at the time of an investment decision may be limited, and the firm may not have access to the detailed information necessary for a full evaluation of the investment opportunity. In addition, the financial information available to Declaration may not be accurate or based upon accepted accounting methods.

Discretionary Aspects of Declaration's Strategies

While Declaration makes use of quantitative analysis and computer models to assist its trading, its portfolio managers rely heavily on their market judgment and experience in investing the Fund's portfolio. Their discretionary trading decisions may be less disciplined than, and may materially underperform, a more systematic approach.

Certain Risks Associated With Instruments Traded

The Fund has been formed for the purpose of investing in credit instruments which Declaration believes have become materially undervalued. This is an inordinately high-risk portfolio concentration. Purchased securities could become further undervalued and more illiquid. Prospective investors must recognize that in addition to the following general risks of the financial instruments in which the Fund may invest, the Fund has chosen to concentrate on a particularly high-risk sub-sector of such securities.

Set forth below is a description of the types of fixed-income securities and other instruments that the Fund may invest in, and some of the risks associated with these investments.

Debt Securities in General

The Fund invests in fixed-income and adjustable rate securities and, as a buyer of protection only, related credit default swaps.

Fixed-income securities are subject to interest rate, market and credit risk.

Interest rate risk relates to changes in a security's value as a result of changes in interest rates generally. The prices of fixed-income securities are inversely affected by changes in interest rates. In general, the values of fixed-income securities increase when prevailing interest rates fall and decrease when interest rates rise. If held to maturity, the market value fluctuations of such securities during their term will not affect the ultimate return realized, but nevertheless incur the opportunity costs of allocating capital to fixed-income securities without obtaining any more than a market interest rate.

Because they incorporate a resetting of interest rates, adjustable rate securities are less likely than fixed-income securities of comparable quality and maturity to increase or decrease significantly in value when market interest rates fall or rise, respectively. Market risk relates to the changes in the risk or perceived risk of an issuer, country or region. Credit risk relates to the ability of the issuer to make payments of principal and interest. The values of income securities may be affected by changes in the credit rating or financial condition of the issuing entities. Income securities denominated in foreign currencies are also subject to the risk of a decline in the value of the denominating currency relative to the U.S. dollar.

The debt securities in which the Fund invests are primarily securities trading at a significant discount to their principal.

Other income paying securities in which the Fund may invest include: pay-in-kind bonds, senior loans, structured notes, American and Global depositary receipts, inflation protected securities, TBA and other delayed delivery securities, repurchase and reverse repurchase agreements and debt securities issued by real estate investment trusts. The Fund may invest in securities issued in private placements, including Rule 144A securities.

There are no reliable sources of statistical information with respect to the default rates for many of the types of debt which the Fund may purchase. In fact, the prevailing disruptions in the credit markets are due in substantial part to the growing uncertainty as to the underwriting standards applied to sub-prime and other mortgage originators. To the extent that Declaration's assumptions as to default rates prove materially incorrect, the Fund is likely to incur material losses.

Asset-Backed Securities

The Fund invests in ABS. ABS are securities that entitle the holders to receive payments that depend primarily on the cash flow from a specified pool of financial assets, either fixed or revolving, that by their terms convert — if paid in accordance with their tenor — into cash within a finite time period, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the ABS.

Holders of ABS, including the Fund, bear various risks, including credit risks, liquidity risks, interest-rate risks, market risks, operations risks, structural risks and legal risks. Credit risk is an important issue in ABS because of the significant credit risks inherent in the underlying collateral and because issuers are primarily private entities. The structure of an ABS and the terms of the investors' interest in the collateral can vary widely depending on the type of collateral, the desires of investors and the use of credit enhancements. Although the basic elements of all ABS are similar, individual transactions can differ markedly in both structure and execution. Important determinants of the risk associated with issuing or holding the securities include the process by which principal and interest payments are allocated and distributed to investors, how credit losses affect the issuing vehicle and the return to investors in such ABS, whether collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including the maturity of the ABS itself) any remaining balance in the accounts may revert to the issuing entity and the extent to which the entity that is the actual source of the collateral assets is obligated to provide support to the issuing vehicle or to the investors in such ABS.

The Fund may invest significant amounts of capital in ABS that are subordinate in right of payment and rank junior to other securities that are secured by or represent an ownership interest in the same pool of assets. In addition, many of the transactions in which such securities are issued have structural features that divert payments of interest and/or principal to more senior classes when the delinquency or loss experience of the pool exceeds certain levels. As a result, such securities have a higher risk of loss as a result of delinquencies or losses on the underlying assets.

Residential and Commercial Mortgage-Backed Securities

Investing in commercial and residential mortgage-backed securities involves the risks typically associated with investing in traditional fixed-income securities (including interest rate and credit risk) as well as the risk of principal prepayment and exposure to real estate. The rate of prepayments on underlying mortgages affects the price and volatility of a mortgage-backed security, and may have the effect of shortening or extending the effective maturity of such security. Different types of mortgage-backed securities are subject to varying degrees of prepayment risk. Residential mortgage-backed securities generally provide for prepayment of principal at any time due to, among other reasons, prepayments on the underlying mortgage loans. As a result of prepayments, the Fund may be required to reinvest assets at an inopportune time resulting in a lower return. The risks of investing in such instruments reflect the risks of the underlying obligors, as well as the real estate that secures the instruments.

If the Fund purchases mortgage-backed or asset-backed securities that are “subordinated” to other interests in the same mortgage pool, the Fund as a holder of those securities may only receive payments after the pool’s obligations to other investors have been satisfied. An unexpectedly high rate of defaults on the mortgages held by a mortgage pool may limit substantially the pool’s ability to make payments of principal or interest to the Fund as a holder of such subordinated securities, reducing the values of those securities or in some cases rendering them worthless; the risk of such defaults is generally higher in the case of mortgage pools that include so-called “sub-prime” mortgages. An unexpectedly high or low rate of prepayments on a pool’s underlying mortgages may have a similar effect on subordinated securities. A mortgage pool may issue securities subject to various levels of subordination; the risk of non-payment affects securities at each level, although the risk is greater in the case of more highly subordinated securities.

The underwriting standards for “sub-prime” and “Alt-A” loans are more flexible than the standards generally used by lenders for borrowers with non-blemished credit histories with regard to the borrower’s credit standing and repayment ability. Borrowers who qualify generally have impaired credit histories, which may include a record of major derogatory credit items such as outstanding judgments or prior bankruptcies. In addition, they may not have the documentation required to qualify for a standard mortgage loan. A sharp increase in the rate of delinquencies amongst subprime, Alt-A and some prime loans began in 2007. This has severely impacted the liquidity of many types of mortgage pools, causing significant market uncertainty and a lack of liquidity for these securities.

REIT Debt Securities

The Fund may invest in debt securities or derivatives indexed to real estate investment trust (“REIT”) debt securities. Investments in REIT debt securities involve special risks. In particular, REITs generally are permitted to invest solely in real estate or real estate related assets and are subject to the inherent risks associated with such investments. Consequently, the financial condition of any REIT may be affected by the risks described above with respect to commercial mortgage loans and mortgage-backed securities and similar risks, including (i) risks of delinquency and foreclosure and risks of loss in the event thereof, (ii) the dependence upon the successful operation of and net income from real property, (iii) risks generally incident to interests in real property, including those described above, (iv) risks that may be presented by the type and use of a particular commercial property and (v) the difficulty of converting certain property to an alternative use in the event that the operation of such commercial property for its original purpose becomes unprofitable for any reason.

In addition, risks of REIT debt securities may include (among others): (i) limited liquidity and secondary market support; (ii) substantial market price volatility resulting from changes in prevailing interest rates; (iii) subordination to the prior claims of banks and other senior lenders; (iv) the operation of mandatory sinking fund or call/redemption provisions during periods of declining interest rates that could cause the Fund to reinvest premature redemption proceeds in lower yielding collateral debt securities; (v) the possibility that earnings of the REIT debt security issuer may be insufficient to meet its debt service; and (vi) the declining creditworthiness and potential for insolvency of the issuer of such REIT debt securities during periods of rising interest rates and economic downturn. An economic downturn or an increase in interest rates could severely disrupt the market for REIT debt securities, adversely affecting the value of outstanding REIT debt securities and the ability of the issuers to repay principal and interest.

Issuers of REIT debt securities may be highly leveraged and may not have available to them more traditional methods of financing. The risk associated with acquiring the securities of such issuers generally is greater than is the case with highly rated securities. Downward movements in interest rates could also adversely affect the performance of REIT debt securities. REIT debt securities may have call or redemption features that would permit the issuer thereof to repurchase the securities from the Fund.

As a result of the limited liquidity of REIT debt securities, their prices have at times experienced significant and rapid decline when a substantial number of holders have decided to sell. In addition, the Fund may have difficulty disposing of certain REIT debt securities because there may be a thin trading market for such securities.

Structured Credit Products

Special risks may be associated with the Fund's investments in structured credit products — *i.e.*, collateralized debt obligations, synthetic credit portfolio transactions and asset-backed securities. For example, synthetic portfolio transactions may be structured with two or more tranches each of which receive different proportions of the interest and principal distributions on a pool of credit assets. The yield to maturity of any given tranche may be extremely sensitive to the default rate in the underlying reference portfolio.

Structured Finance Obligations

Structured finance obligations are subject to prepayment, credit, liquidity, market, structural, legal and interest rate risks, among others. The performance of a structured finance obligation is affected by a variety of factors, including the level and timing of the payments and recoveries on the underlying assets and the adequacy of the related collateral.

CDO Securities

A portion of the investments acquired by the Fund may consist of CDO securities.

CDO securities generally have underlying risks such as interest rate mismatches, trading and reinvestment risk and tax considerations. Each CDO security, however, will involve risks specific to the particular CDO security and its underlying portfolio. The value of the CDO securities generally will fluctuate with, among other things, the financial condition of the obligors on or issuers of the underlying portfolio, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. Also, CDO structures are complex; the Fund may be subject to a number of as yet unanticipated risks in investing in CDOs.

The CDO market has recently experienced significant disruptions due to the sharply increased default rates on sub-prime mortgages. See “— *Recent Developments in the Residential Mortgage Market*,” above. The Fund's objective includes profiting from such disruptions.

CDO securities are usually limited-recourse obligations of the issuer thereof payable solely from the underlying portfolios of such issuer or proceeds thereof. Consequently, holders of CDO securities must rely solely on distributions on the underlying portfolio or proceeds thereof for payment in respect thereof. If distributions on the underlying portfolio are insufficient to make payments on the CDO security, no other assets will be available for payment of the deficiency and following realization of the underlying assets, the obligation of such issuer to pay such deficiency will be extinguished. As a result, the amount and timing of interest and principal payments will depend on the performance and characteristics of the related underlying portfolios.

Some CDOs may have underlying portfolios that hold or invest in some of the same assets as the Fund. As a result, investors in the Fund are exposed to the risk of loss on CDO securities. If investors in the Fund are also investors in a CDO security which the Fund acquires (or in other tranches of securities

sold by the same CDO), the exposure of such investor to the risk of loss on such CDO security will be increased.

Underlying CDO portfolios may consist of high yield debt securities, structured finance securities, synthetic securities and other debt instruments. Such investments may be speculative. To the extent that the underlying portfolios consist of RMBS and CMBS, the CDO securities will be subject to the risks described under “—*Asset-Backed Securities*” and “—*Residential and Commercial Mortgage-Backed Securities*,” above.

CDO securities are subject to interest rate risk. The underlying portfolio of a CDO will include assets that bear interest at a fixed or floating rate of interest, and while the CDO securities issued by such CDO also may bear interest at a floating or fixed rate, the proportions of a CDO’s assets bearing interest at fixed and floating rates will typically not match the proportions to which such CDO security issuer’s liabilities bear interest at fixed and floating rates. As a result, there could be a floating/fixed rate or basis mismatch between such CDO securities and underlying portfolios which bear interest at a fixed rate, and there may be a timing or basis mismatch between the CDO securities and underlying portfolios that bear interest at a floating rate as the interest rate on such floating rate underlying portfolios may adjust more frequently or less frequently, on different dates and based on different indices, than the interest rates on the CDO securities. As a result of such mismatches, an increase or decrease in the level of the floating rate indices could adversely impact the ability to make payments on the CDO securities.

The CDO securities which the Fund may purchase may be subordinated to other classes of securities issued by each respective issuer thereof. CDO securities that are not part of the most senior tranche(s) of the securities issued by the issuer thereof may allow for the deferral of the payment of interest. The CDO securities that Declaration anticipates may form part of the Fund’s portfolio may include both senior and mezzanine debt issued by CDOs subject to the constraints on mezzanine issues described below in “Investment Guidelines.” The CDO securities that are mezzanine debt will have payments of interest and principal that are subordinated to one or more classes of notes that are more senior in the related issuer’s capital structure, and generally will allow for the deferral of interest subject to the related issuer’s priority of payments. To the extent that any losses are incurred by a CDO, such losses will be borne by holders of the mezzanine tranches before any losses are borne by the holders of senior tranches. In addition, if an event of default occurs under the applicable indenture, as long as any senior tranche of CDO securities is outstanding, the holders of the senior tranche thereof generally will be entitled to determine the remedies to be exercised under the indenture, which could be adverse to the interests of the holders of the mezzanine tranches (including the Fund).

The risks associated with investing in CDO securities may in addition depend on the skill and experience of the managers of the CDOs’ underlying portfolios, particular with respect to active trading.

Bank Loans

The Fund may invest in mortgage-related loans and loan participations originated by banks and other financial institutions. These investments may include highly-leveraged loans to borrowers with below investment grade credit ratings. Such loans are typically private corporate loans that are negotiated by one or more commercial banks or financial institutions and syndicated among a group of commercial banks and financial institutions. In order to induce the lenders to extend credit and to offer a favorable interest rate, the borrower often provides the lenders with extensive information about its business that is not generally available to the public. To the extent that the Fund obtains such information and it is material and nonpublic, the Fund is unable to trade in the securities of the borrower until the information is disclosed to the public or otherwise ceases to be material, nonpublic information.

The Fund may invest directly or through participations in loans with revolving credit features or other commitments or guarantees to lend funds in the future. A failure by the Fund to advance requested funds to a borrower could result in claims against the Fund and in possible assertions of offsets against amounts previously lent.

The Fund may acquire interests in bank loans and other debt obligations either directly (by way of sale or assignment) or indirectly (by way of participation). The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution. A participation interest in a portion of a debt obligation typically results in a contractual relationship with only the institution acting as a lender under the credit agreement, not with the borrower. As a holder of a participation interest, the Fund generally will have no right to exercise the rights of the lender under the credit agreement, including the right to enforce compliance by the borrower with the terms of the loan agreement, approve amendments or waivers of terms, nor will the Fund have any rights of set-off against the borrower, and the Fund may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. As a result, the Fund will be exposed to the credit risk of both the borrower and the institution selling the participation.

Leveraged loans have historically experienced significantly higher default rates than investment-grade debt. These instruments are commonly under intense price pressure, and the dynamics driving their value are often company-specific issues unrelated to market-wide investor sentiment. The liquidity for defaulted obligations is very limited, and such obligations typically may only be sold at severe discounts to face value. There can be no assurance that the ultimate recovery on any defaulted obligation will not be materially less than the recovery rate assumed by Declaration in determining whether to acquire such obligation.

Investment-Grade and Non- or Lower-Rated Securities

The Fund's investment portfolio may include both investment-grade and lower-rated securities (sometimes referred to as "high yield" or "junk" bonds). Analysis of the creditworthiness of lower-rated debt is complex. Lower-rated securities are often more susceptible to real or perceived adverse economic and competitive industry conditions than higher-grade debt. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the value and liquidity of lower-rated securities, especially given the typically thinly traded market in such securities.

Credit ratings evaluate the safety of the principal and interest payments, not the market value risk, of lower-rated securities.

Rating agencies may fail to make timely changes to credit ratings to reflect credit events occurring since a security was rated, so that outstanding ratings may not reflect the issuer's current credit standing.

Options

The Fund may purchase and sell put and call options on debt securities, indices (both narrow- and broad-based) and currencies. A put option on securities or currencies gives the purchaser of the option, upon payment of a premium, the right to deliver a specified amount of the securities or currencies to the writer of the option on or before a fixed date at a predetermined price. A put option on a securities index gives the purchaser of the option, upon payment of a premium, the right to a cash payment from the writer of the option if the index drops below a predetermined level on or before a fixed date. A call option on securities or currencies gives the purchaser of the option, upon payment of a premium, the right to call

upon the writer to deliver a specified amount of the securities on or before a fixed date at a predetermined price. A call option on a securities index gives the purchaser of the option, upon payment of a premium, the right to a cash payment from the writer of the option if the index rises above a predetermined level on or before a fixed date.

Call options may be purchased for speculative purposes or to provide exposure to increases in the market (*e.g.*, with respect to temporary cash positions) or to hedge against an increase in the price of securities, currencies or other investments that the Fund intends to purchase or has sold short. Similarly, put options may be purchased for speculative purposes or to hedge against a decrease in the market generally or in the price of securities or other investments held by the Fund. Buying options may reduce the Fund's returns, but by no more than the amount of the premiums paid for the options.

The Fund may write covered put options (*i.e.*, where the Fund segregates assets to cover the strike price of the option) to enhance returns when Declaration perceives that the option premium offered is in excess of the premium that Declaration would expect to be offered under existing market conditions, or if the exercise price of the option is less than the price that Declaration expects the security or other underlying investment to reach during the life of the option. Writing covered put options may limit the Fund's portfolio gains if the option is exercised because the Fund will have to sell assets or use cash on hand to buy the underlying investments above the current market price. The Fund also may write "naked" put options (*i.e.*, writing options without segregating assets to cover the strike price), which could result in substantial losses if the price of the security or other underlying investment decreases during the term of the option.

Unlike exchange-traded options, which are standardized with respect to the underlying instrument, expiration date, contract size, and strike price, the terms of OTC options generally are established through negotiation with the other party to the option contract. While this type of arrangement allows the Fund greater flexibility to tailor an option to its needs, OTC options generally involve greater credit risk than exchange-traded options, which are guaranteed by the clearing organization of the exchanges where they are traded.

Purchasing and writing put and call options are highly specialized activities and entail greater than ordinary market risks.

Forward Trading

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

Credit Default Swaps

The Fund may purchase credit derivatives contracts — primarily credit default swaps — for risk mitigation. The Fund will not invest in long CDS positions (*i.e.*, the Fund will not enter into CDS as a seller of credit protection). The typical credit default swap contract requires the seller to pay to the buyer, in the event that a particular reference entity experiences specified credit events, the difference between the notional amount of the contract and the value of a portfolio of securities issued by the reference entity that the buyer delivers to the seller. In return, the buyer agrees to make periodic payments equal to a fixed percentage of the notional amount of the contract.

In circumstances in which the Fund did not own the debt securities under a credit default swap that requires physical settlement, the Fund would be exposed to the risk that deliverable securities will not be available in the market, or will be available only at unfavorable prices, as would be the case in a so-called “short squeeze.” In certain instances of issuer defaults or restructurings, it has been unclear under the standard industry documentation for credit default swaps whether or not a “credit event” triggering the seller’s payment obligation had occurred. In either of these cases, the Fund would not be able to realize the full value of the credit default swap upon a default by the reference entity.

Futures Contracts

Trading in financial futures contracts is a specialized activity that may entail greater than ordinary investment risks. Financial futures markets are volatile and are influenced by factors, such as changing supply and demand relationships, governmental programs and policies, national and international political and economic events and changes in interest rates. In addition, because of the low margin deposit normally required in financial futures trading, a high degree of leverage is typical of a financial figures trading account. Consequently, a relatively small price movement in a futures contract may result in substantial losses to the trader. Financial futures trading may also be illiquid because certain futures exchanges do not permit trading in a particular type of future beyond certain set limits. If prices fluctuate during a single day’s trading beyond those limits, which conditions have in the past sometimes lasted for several days in certain contracts, the Fund could be prevented from promptly liquidating unfavorable positions and thus be subject to substantial losses.

In entering into futures contracts and options on futures contracts, there is a credit risk that a counterparty will not be able to meet its obligations to the Fund. The counterparty for futures contracts and options on futures contracts traded in the United States and on most foreign futures exchanges is the clearinghouse associated with such exchange. In general, clearinghouses are backed by the corporate members of the clearinghouse that are required to share any financial burden resulting from the non-performance by one of its members and, as such, should significantly reduce this credit risk. In cases where the clearinghouse is not backed by the clearing members (*i.e.*, some foreign exchanges), it is normally backed by a consortium of banks or other financial institutions. There can be no assurance that any counterparty, clearing member or clearinghouse will be able to meet its obligations to the Fund.

In addition, under the Commodity Exchange Act, futures commission merchants are required to maintain customers’ assets in a segregated account. If the Fund engages in futures and options contract trading and the futures commission merchants with which the Fund maintains accounts fail to so segregate the Fund’s assets or are not required to do so, the Fund will be subject to a risk of loss in the event of the bankruptcy of any of its futures commission merchants. Even where customers’ funds are properly segregated, the Fund might be able to recover only a *pro rata* share of its property pursuant to a distribution of a bankrupt futures commission merchant’s assets.

Model Risk

Declaration selects the securities to be purchased for the Fund in part on the basis of quantitative valuation models that it has developed over time, as well as valuation models developed by third parties and made available to Declaration. There can be no assurance that such models continue to be viable in the current disrupted credit markets.

Exchange Rates

Declaration may from time to time invest for the Fund in securities and instruments denominated in non-U.S. currencies on an opportunistic basis. Such investments are subject to the risk that the value of a particular currency will change in relation to the U.S. dollar. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. Declaration does not generally expect to hedge these risks but may do so by investing directly in non-U.S. currencies and buying and selling options, futures or forward contracts thereon. The Fund cannot, however, assure any Limited Partner that these strategies, if implemented, will be effective.

Forecasts

The models used by Declaration will typically require certain market forecasts — for example, changes in home prices, expected market volatility, interest-rate changes, default and recovery patterns or prepayment schedules. There can be no assurance that Declaration will correctly forecast such factors, and, to the extent that it does not do so, the data incorporated into Declaration's models will therefore be incorrect.

Importance of Market Judgment

Although Declaration uses quantitative valuation models in evaluating the economic components of certain prospective trades, Declaration's quantitative strategies are not wholly systematic; the market judgment and discretion of Declaration's personnel are fundamental to the implementation of these strategies. The greater the importance of subjective factors, the more unpredictable a trading strategy becomes.

Uncertain Holding Periods

Declaration intends to hold the obligations acquired for the Fund for the full period they are outstanding or until they return to what Declaration believes to be fair value. Declaration has no way of knowing when (or if) this will occur, especially in view of the effectively unprecedented conditions in the credit markets. If the market corrects quickly, the Board may, upon the recommendation of Declaration, elect to dissolve the Fund soon after its inception. On the other hand, the market correction may not occur until after the Fund has been required to dissolve. An investment in the Fund is unusual in that the duration of the investment as well as its positions will depend primarily on general market conditions.

Certain of the Fund's transactions involve acquiring related positions in a variety of different instruments or markets at or about the same time. Frequently, optimizing the probability of being able to exploit the pricing anomalies among these positions requires holding periods of significant length, often many months to a year or more. Actual holding periods depend on numerous market factors which can

both expedite and disrupt price convergences. There can be no assurance that the Fund will be able to maintain any particular position, or group of related positions, for the duration required to realize the expected gains, or avoid losses, from such positions.

Short Sales

The Fund may sell certain credit instruments “short,” although it is materially more difficult to do so in the credit markets in which the Fund is active than it is in equities. A short sale is effected by selling a security which the Fund does not own. In order to make delivery to the buyer of a security sold short, the Fund must borrow the security. In so doing, it incurs the obligation to replace that security, whatever its price may be, at the time it is required to deliver it to the lender. The Fund must also pay to the lender of the security any interest payable on the security during the borrowing period and may have to pay a premium to borrow the security, as well as permit the borrower to exercise any voting rights attributable to such credit market instrument. This obligation must, unless the Fund then owns or has the right to obtain, without payment, securities identical to those sold short, be collateralized by a deposit of cash or marketable securities with the lender. Short selling is subject to a theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. There can be no assurance that the securities necessary to cover the short position will be available for purchase by the Fund. In addition, purchasing securities to close out the short position can itself cause the price of the relevant securities to rise further, thereby increasing the loss incurred by the Fund. Furthermore, the Fund may prematurely be forced to close out a short position if a counterparty from which the Fund borrowed securities demands their return, resulting in a loss on what might otherwise have been ultimately a profitable position.

Operational and Human Error

The Fund’s results can be affected by the efficiency of trade executions. The success of Declaration’s strategy depends in part upon the accurate calculation of price relationships, the communication of precise trading instructions and ongoing position evaluations. In addition, the Fund’s positions require active, ongoing management and dynamic adjustments to the investment portfolio. There is the possibility that, through human error, oversight or operational weaknesses, mistakes could occur in this process and lead to significant trading losses.

Duration and Convexity

Duration is a technical term used in the fixed-income markets to mean the sensitivity of a given debt instrument to changes in interest rates. Convexity is a technical term for the speed at which the duration of an instrument changes with increasingly large changes in interest rates.

The duration and convexity of the Fund’s portfolio may be a significant component of its risk as the portfolio may incur losses due to changes in interest rates and such exposure to interest rates may not be hedged.

The prepayment element of many RMBS/CDO/ABS, etc. securities creates a significant convexity risk. For example, whereas an RMBS may decline at approximately the same rate as a Treasury security hedge as interest rates rise, at some point the market will conclude that the interest rates have risen to a point that there will be no prepayment of any of the underlying mortgages, thereby materially extending the duration of the portfolio and its exposure to future interest-rate declines. The differential convexity of securities held by the Fund results in its being subject to materially more interest-rate risk than would a fund which held only conventional, rather than mortgage-backed, fixed-income investments.

Fraudulent Conveyance Considerations

Various laws enacted for the protection of creditors may apply to certain investments that are debt obligations, although the existence and applicability of such laws will vary from jurisdiction to jurisdiction. For example, if a court were to find that the borrower did not receive fair consideration or reasonably equivalent value for incurring indebtedness evidenced by an investment and the grant of any security interest or other lien securing such investment, and, after giving effect to such indebtedness, the borrower (i) was insolvent, (ii) was engaged in a business for which the assets remaining in such borrower constituted unreasonably small capital or (iii) intended to incur or believed that it would incur, debts beyond its ability to pay such debts as they mature, such court could invalidate such indebtedness and such security interest or other lien as fraudulent conveyances, subordinate such indebtedness to existing or future creditors of the borrower or recover amounts previously paid by the borrower (including to the Fund) in satisfaction of such indebtedness or proceeds of such security interest or other lien previously applied in satisfaction of such indebtedness. In addition, if an issuer in which the Fund has an investment becomes insolvent, any payment made on such investment may be subject to avoidance as a “preference” if made within a certain period of time (which may be as long as one year) before insolvency.

In general, if payments on an investment are voidable, whether as fraudulent conveyances or preferences, such payments can be recaptured either from the initial recipient or from subsequent transferees of such payments. To the extent that any such payments are recaptured from the Fund, the resulting loss will be borne by investors in the Fund.

No Limit on the Duration or Maturity of the Fund’s Investments

Although the Reinvestment Period (as defined herein) will end no later than May 15, 2010 and the Fund is scheduled to be liquidated by May 15, 2013 (subject to extension, in the discretion of Declaration, until May 15, 2014), there is no limitation on the maturity or expected duration of the credit instruments acquired by the Fund. In addition, there is no limitation on the duration of the Fund following the Distribution Period (as defined herein) to the extent that the Fund still holds illiquid investments at such time. Furthermore, because many of the credit instruments acquired by the Fund may have a prepayment and/or call component, their actual maturity and duration will not be certain. “Distribution Period” means the period when the fund will distribute current income, principal payments and sale proceeds, as received with respect to the Fund’s portfolio, and will range from the end of the Reinvestment Period through May 15, 2013, subject to extension at the option of Declaration until May 15, 2014.

Limited Diversification Potential

The Fund has been formed as a “special purpose vehicle” to invest in the disrupted credit markets with the limited focus of its single strategy. Declaration attempts to diversify the issuers in which the Fund invests as well as the type, duration and payment terms of the securities which it acquires. However, the markets may treat substantially all debt other than Treasuries and rated corporate debt as essentially fungible so that the diversification which Declaration attempts to provide in the Fund’s portfolios may have limited risk control effect.

Limited Ability to Hedge

Declaration does not expect to hedge any material portion of the Fund’s credit risk.

No Redemptions; Unpredictable Distributions

Prospective investors cannot make redemptions from the Fund. Prospective investors recognize that they will be committed to the Fund until its complete liquidation and, except in limited circumstances upon the occurrence of a Key Person Event, committed to make Capital Commitments to the Fund through the end of the Draw Period, despite potentially material changes in the economic climate, the Fund, Declaration and/or in their own financial situation and portfolio objectives. Furthermore, the timing of the distributions which Limited Partners do receive from the Fund will be wholly unpredictable.

Importance of Declaration

The Fund depends on the ability of Declaration to manage the Fund's investments. The nature of this investment implies the difficulty the Fund would have in finding an adequate replacement (or even a liquidator for the Fund) in the event that the services of Declaration were no longer available. Declaration, in turn, depends on the services of James E. Shallcross and three other "Key Persons" as defined below) with primary responsibility for portfolio management of the Fund. Losing the services of any of such "Key Persons" or other portfolio managers could impair the ability of Declaration to provide services to the Fund, and be material and adverse to the Fund. The highly specialized nature of the credit markets in which the Fund trades may make Declaration particularly difficult to replace.

Key Person Event

The four "Key Persons" with primary responsibility for the portfolio management of the Fund are James E. Shallcross, William P. Callan Jr., Peter M. Farley and Bond Griffin. A "Key Person Event" will occur if James E. Shallcross and any two of the other three Principals become permanently unavailable to manage the Fund's portfolio by reason of their death, disability or cessation of employment by Declaration. The occurrence of a Key Person Event leads to early termination of the Reinvestment Period and thus could result in lost investment opportunities.

Quoted Value/Transaction Value Disparity

It is not unusual for broker-dealers to provide "bid" and "ask" quotations for securities on a preliminary or "soft" basis. Such preliminary quotations may or may not reflect the "bid" or "ask" prices at which such broker-dealer would be willing to effect actual transactions in such securities.

The Fund's portfolio may include substantial positions for which there is only a single broker-dealer quoting prices, which may be preliminary or "soft." In the absence of actual sale transactions, it is difficult for Declaration and LaSalle (as defined herein) to test the reliability of preliminary quotes even when multiple broker-dealers are providing "bid" and "ask" prices. Furthermore, if it becomes necessary for the Fund to liquidate certain of such securities, the sales price may be dramatically less than expected — resulting in a revaluation of the portfolio (and the possibility of a total loss of the portfolio).

Receipt of Confidential Information

In making debt investments, especially in distressed debt securities, investors, including Declaration may receive material non-public information which prevents them from executing additional transactions in the securities of a given issuer.

Disclosure of the Fund's Portfolio

As a registered investment company, the Fund is required to circulate quarterly financial statements containing portfolio information. Many of the Fund's competitors are not subject to any such disclosure obligations, and their ability to maintain the confidentiality of their portfolios may be a competitive advantage.

Carried Interest

The fact that Declaration is eligible to receive the Carried Interest from the Fund may create an incentive for Declaration to make investments on behalf of the Fund that are riskier or more speculative than would otherwise be the case.

Substantial Expenses

The Fund pays Declaration a monthly Management Fee.

The credit instruments acquired by the Fund often trade infrequently and only at substantial bid-ask spreads. Consequently, although Declaration does not anticipate rapid turnover of all the Fund's portfolios, the Fund may be subject to substantial transaction expenses.

Valuation Risk; "Manager's Marks"

LaSalle, with assistance from Declaration, values the Fund's positions in accordance with procedures approved by the Board. The Fund's asset values generally are based on quotes provided by brokers and other competent third-party pricing sources. However, certain of the Fund's positions may be valued based on pricing models developed by Declaration. Such pricing models may be unreliable due to the unpredictable events affecting and general volatility of the asset-backed and mortgage credit markets. While Declaration's models are from time to time corroborated by quotes obtained from third-party dealers, these valuations are generally within the control of Declaration. The fair market value of those investments for which a reliable third-party quote is not available is based on other relevant sources deemed reliable by Declaration in its good faith judgment in accordance with the valuation procedures approved by the Board.

Risk of Litigation

Given the Fund's concentration on materially undervalued, illiquid debt securities, the Fund may be subject to litigation from time to time as well as involved in bankruptcy and insolvency proceedings. The Fund also could be named as a defendant in a lawsuit or regulatory action. The outcome of such proceedings, which may materially adversely affect the value of the Fund, are impossible to anticipate, and such proceedings may continue without resolution for long periods of time. Any litigation may consume substantial amounts of Declaration's time and attention, and that time and the devotion of these resources to litigation may, at times, be disproportionate to the amounts at stake in the litigation.

The current dislocations in the asset-backed and mortgage credit markets have generated substantial litigation, and it would be reasonable to expect that the current dislocations will continue to do so. It is possible that the Fund as an owner of mortgage securities may be named as a defendant in civil proceedings. The expense of defending against such claims and paying settlements or judgments will be borne by the Fund. Perhaps more importantly, any such litigation could impair Declaration's ability to manage the Fund effectively.

Diverse Limited Partnership

Limited Partners may include persons or entities organized in various jurisdictions. The conflicting interests of particular Limited Partners may relate to or arise from, among other things, the nature of the investments made by the Fund, and the timing of investment dispositions. Decisions made by Declaration for the Fund may be more beneficial for one investor than for another investor, especially with respect to investors' particular tax situations. Declaration will make substantial decisions based on economics, not tax considerations.

Adverse Market Conditions

The adverse effects of the credit market disruption of 2007-2008 on the global economy may be severe and ongoing. The Fund's prospects for profitability may be materially adversely affected by prolonged recession or economic stagnation.

The Market Disruption of 2007-2008

The global financial markets are currently undergoing a period of unprecedented disruption which has led to extensive governmental intervention. It is not possible to predict what structural and/or regulatory changes may result from the current market conditions or whether such changes may be materially adverse to the Fund and its prospects.

There has recently been increased regulatory scrutiny of private investment funds as well as of commercial and investment banks. Legislation proposing greater regulation of the "alternative investment," industry as well as the financial services industry in general, is currently being actively considered by Congress, states, and the governing bodies of non-U.S. jurisdictions. Legislative action by federal or state governments could have substantial and adverse consequences for the regulation of private investment funds such as the Fund.

It is impossible to predict what, if any, changes in the regulations applicable to the Fund, Declaration, the markets in which they invest or the counterparties with which they transact may be instituted in the future. It is possible that the current market conditions will result in materially increased regulation of the markets in which Declaration trades on behalf of the Fund, which may materially adversely affect the Fund.

Government Intervention in the Credit Markets

The Federal Reserve has intervened in the credit markets and it is reasonable to expect that it will continue to do so. The effect of any such intervention could be a dramatic decline in the value of certain credit instruments held by the Fund. Government intervention is subject to all the uncertainties not only of prevailing economic conditions but also of the political process. See "*Recent Developments in the Residential Mortgage Market*" above.

The federal government has enacted legislation designed not only to provide an economic stimulus to the U.S. economy but also to provide economic stability to the financial markets through, among other things, the purchase of troubled assets from financial institutions and the purchase of bank equity for the purpose of recapitalizing the banking sector. If such legislation is ultimately effective, perceived mispricings in the credit markets — upon which the Fund intends to capitalize — may be reduced or eliminated.

U.S. Tax Risks

Prospective investors are strongly urged to consult their own tax advisers and counsel with respect to the possible tax consequences to them of an investment in the Fund. See *“Item 10.4 - Taxes.”*

Partnership Status

As described in more detail in *“Item 10.4 - Taxes,”* it is expected that the Fund will be treated as a partnership for federal income tax purposes, and not as an association taxable as a corporation or as a publicly traded partnership taxable as a corporation. If, notwithstanding the foregoing, it were determined that the Fund should be classified for federal income tax purposes as an association taxable as a corporation or as a publicly traded partnership taxable as a corporation, the Fund would be required to pay federal income tax at corporate income tax rates on its net ordinary income and capital gains, thereby substantially reducing the amount of cash available for investment or for distribution to the Limited Partners. Furthermore, all or a portion of any distributions made by the Fund to the Limited Partners could be treated as ordinary dividend income regardless of the source from which they were generated.

Income Inclusions

As the Fund holds a substantial part of its portfolio in debt securities, Limited Partners may be required to include in income accrued interest and original issue discount, which will be ordinary income, with respect to debt instruments held by the Fund even though there is uncertainty as to whether such amounts will ever be received by the Fund. In addition, Limited Partners may be subject to character mismatches where the Fund is required to accrue an amount of interest or original issue discount with respect to a capital asset which subsequently is sold at a loss or becomes worthless.

Phantom Income

The Fund’s income and gain for each taxable year is allocated to, and includible in, a Limited Partners’ taxable income whether or not cash or other property is actually distributed. Accordingly, each Limited Partner should have alternative sources from which to pay its federal income tax liability, as such income and gain will likely exceed distributions to such Limited Partner for a taxable year.

IRS Audit

The Fund may take positions with respect to certain tax issues that depend on legal conclusions not yet addressed by the courts. Should any such positions be successfully challenged by the IRS, a Limited Partner might be found to have a different tax liability for that year than that reported on its federal income tax return. In addition, an audit of the Fund may result in an audit of the returns of some or all of the Limited Partners, which examination could result in adjustments to the tax consequences initially reported by the Fund and affect items not related to a Limited Partner’s investment in the Fund. If such adjustments result in an increase in a Limited Partner’s federal income tax liability for any year, such Limited Partner may also be liable for interest and penalties with respect to the amount of underpayment. The legal and accounting costs incurred in connection with any audit of the Fund’s tax return will be borne by the Fund. The cost of any audit of a Limited Partner’s tax return will be borne solely by such Limited Partner.

Information Reporting

The Fund will provide Schedules K-1 as soon as practicable after receipt of all of the necessary information. Schedules K-1 will not be available until completion of the Fund’s annual audit. Limited

Partners should be prepared to obtain extensions of the filing date for their income tax returns at the federal, state and local level.

The foregoing list of risk factors is illustrative only and does not purport to be complete. Nor does it purport to explain rather than simply identify certain of the principal risks of an investment in the Fund. Prospective investors should read the entire Memorandum and consult with their own legal, financial, tax and other advisors before deciding to make an investment in the Interests.

THE FUND'S TRADING STRATEGIES INVOLVE SUBSTANTIAL RISKS, AND THERE CAN BE NO ASSURANCE THAT THE FUND'S OBJECTIVES WILL BE ACHIEVED. THE CREDIT MARKET TRADING STRATEGY WHICH THE FUND EMPLOYS CAN LEAD TO SUBSTANTIAL OR TOTAL LOSSES.

ITEM 9. – MANAGEMENT.

Item 9.1(a) Management – The Board

Declaration has elected the Fund's initial Board of Directors (the "Board," and each director, a "Director"). Under the Amended and Restated Limited Partnership Agreement of the Fund (the "Limited Partnership Agreement"), the Board is responsible for monitoring and overseeing the Fund, to the fullest extent permitted by applicable law, and has the complete and exclusive authority to oversee and establish policies regarding the management, conduct and operation of the Fund's business. To the extent permitted by applicable law, the Board may delegate any of its rights, powers and authority to, among others, the officers of the Fund, Declaration or any committee of the Board. The Board exercises the same powers, authority and responsibilities on behalf of the Fund as are customarily exercised by the directors of an investment company registered under the 1940 Act. The Directors, in their capacities as such, are not general partners of, or investment advisers to, the Fund.

At least a majority of the Board are and will be persons who are not "interested persons," as defined in Section 2(a)(19) of the 1940 Act (the "Independent Directors"). The current members of the Board are William P. Callan, Jr., William T. Lloyd, Paul F. Malvey and David Sislen.

William T. Lloyd is the founder and Managing Director of Coral Bay Capital LLC, which develops and implements growth strategies for mid-sized financial firms. Prior to this position, he served as a Director and Research Portfolio Strategist at Bridgewater Associates, where he covered markets such as nominal and real bonds, currencies and equities for a global client base including pension funds, endowments and funds of funds. Mr. Lloyd has also served as Managing Director of Research and Director and Head of Markets Strategy and Credit Research at Barclays Capital and as Director of Portfolio Strategies at Credit Suisse First Boston. Mr. Lloyd has a BA in Political Science from Union College and an MBA in Finance from Columbia University.

Paul F. Malvey served as the Director of the Office of Debt Management at the U.S. Treasury, where he was responsible for federal finance and debt management policy until retiring in 2003. He has acted as an Emerging Market Development Consultant for international financial institutions, including the World Bank, the International Monetary Fund and the United National Development Program for the past 13 years. From 2003 to 2006, Mr. Malvey was also a Financial Market Consultant at Barclays Capital for, among other things, inflation-linked securities and the U.S. agency securities markets. Mr. Malvey has a BA in Mathematics from Merrimack College and an MA in Economics from the University of Notre Dame.

David Sislen is the founder and President of Bristol Capital Corporation, which owns and/or manages a portfolio of industrial and other real estate assets, as well as provides advisory services for distressed debt on commercial real estate assets. Prior to founding Bristol Capital Corporation, Mr. Sislen was a Senior Vice President of CRI, Inc., where his responsibilities included development, acquisition and syndication of commercial real estate. Mr. Sislen has a BA in Economics from Tulane University and a MBA from the University of Chicago Graduate School of Business. He is a Trustee Emeritus of The Edmund Burke School in Washington, D.C., a member of The President's Council at Tulane University and an instructor at Johns Hopkins University's Carey School of Business, where he teaches real estate finance.

The biography of William P. Callan, Jr. appears below.

The Board's operation and responsibilities are set forth in the Limited Partnership Agreement.

The Board meets at least quarterly throughout the year to oversee the Fund's business, review its performance and review the actions of Declaration.

Any Director may be removed with or without cause by a vote of a majority of the other Directors or by the majority vote (as defined in the 1940 Act), including by written consent, of the Limited Partners.

Management – The Officers

William P. Callan, Jr. is the President and Chief Executive Officer of the Fund. Lester Guillard III is the Fund's Vice President and Chief Financial Officer, James E. Shallcross is the Fund's Chief Investment Officer, Carole R. Parker is the Fund's Chief Compliance Officer, Edmund Price is the Fund's Secretary and Scott Barnes is the Fund's Controller and Assistant Secretary.

Item 9.1(b) Management – Declaration Management & Research LLC

Under the supervision of the Board, and pursuant to the Investment Advisory Agreement (the "Investment Advisory Agreement"), Declaration Management & Research LLC, a Delaware limited liability company, serves as the Fund's investment adviser. Pursuant to the Limited Partnership Agreement, Declaration serves as the Fund's general partner. Declaration was established in 1989 and its offices are located at 1800 Tysons Boulevard, Suite 200, McLean, Virginia 22102.

As of September 30, 2008, Declaration had total assets under management of approximately \$12.5 billion and had 42 employees. Declaration is a registered investment adviser under the Advisers Act, and its most recent Form ADV Part I is publicly available. Copies of Declaration's most recent Form ADV Part II are delivered separately to the Fund (as Declaration's client) and to prospective investors in the Fund.

Declaration has made Capital Commitments to the Fund both as its general partner and as a Limited Partner.

Declaration is an indirect wholly-owned subsidiary of John Hancock Life Insurance Company ("John Hancock"). John Hancock, an indirect wholly-owned subsidiary of Manulife Financial Corporation ("Manulife Financial"), is one of the largest life insurance companies in the United States. Founded in 1862, John Hancock offers a broad range of financial products and services, including whole life, term life, variable life, and universal life insurance, as well as college savings products, fixed and variable annuities, long-term care insurance, mutual funds and various forms of business insurance.

Manulife Financial is a leading Canadian-based financial services group serving millions of customers in 19 countries and territories worldwide. Operating as Manulife Financial in Canada and Asia, and primarily through John Hancock in the United States, Manulife Financial offers clients a diverse range of financial protection products and wealth management services through its extensive network of employees, agents and distribution partners. Funds under management by Manulife Financial and its subsidiaries were Cdn\$400 billion as of June 30, 2008.

A discussion regarding the basis for the Board's approval of the investment advisory agreement will be available in the Fund's annual report to Limited Partners.

Management Fee

A monthly management fee (the "Management Fee") is paid to Declaration by the Fund in arrears as of the end of each month. The Management Fee is $1/12$ times a 1.50% annual rate times the aggregate Invested Capital of each Limited Partner.

During the Reinvestment Period, Invested Capital will equal the aggregate Capital Contributions to the Fund.

During the Distribution Period, Invested Capital will be recalculated as of the end of each month, and will equal (a) the aggregate Capital Contributions to the Fund *minus* (b) the product of (1) distributions made to the Limited Partners and (2) the Adjustment Factor.

The Adjustment Factor is the ratio (expressed as a percentage not exceeding 100%) of (a) aggregate Invested Capital as of the end of the preceding month to (b) the Net Asset Value of the Fund as of the end of the preceding month.

The Adjustment Factor has the effect of reducing the base on which the Management Fee is calculated to reflect returns of capital to Limited Partners during the Distribution Period.

No Management Fee will apply after the end of the Distribution Period.

Management Fees (as well as the Fund's expenses) are paid from the proceeds of Capital Calls and/or of Fund investments.

Distributions and Carried Interest

Distributions

The timing of the distributions made by the Fund will be uncertain. This is particularly true because of the unpredictability of the credit markets under current circumstances, as well as the esoteric features of credit instruments which Declaration will acquire for the Fund. Declaration intends to reinvest, rather than distribute, the proceeds of the Fund's investments for as long as Declaration believes that it is able to identify market opportunities but in no event may reinvestments be made after May 15, 2010.

Distributions will be allocated among the Limited Partners in accordance with their respective Fund Percentages. "Fund Percentage" means, with respect to each Limited Partner and each valuation date, the fraction the numerator of which is the Net Asset Value of such Limited Partner's Capital Account¹ as such Valuation Date (as defined herein) and the denominator of which is the Net Asset Value

¹ The Fund has established a separate Capital Account for each Limited Partner. Each Capital Account is adjusted to reflect such Limited Partner's Capital Contributions and share of the Fund's income, gain, loss and deduction, and distributions made from such Capital Account.

of the Fund as of such Valuation Date, in each case determined within reduction for any Carried Interest not yet allocated. The sum of all Fund Percentages determined as of any Valuation Date will equal 100%. The "Valuation Date" is the date in which the Fund's "Net Asset Value" is calculated, and it will generally occur at least quarterly for reporting purposes and also as of the date of any Capital Contribution.

Distributions to Declaration with respect to its Capital Contributions as general partner made as a result of its Capital Commitment will be made 100% to Declaration. Distributions to Declaration as a Limited Partner will be made in the same manner as to all other Limited Partners.

No distributions will be made by the Fund to cover any taxes due on Limited Partners' investments in the Fund.

The Fund may retain sufficient funds to pay its expenses.

Due to Rule 19b-1 under the 1940 Act, during any calendar year, the Fund generally will make only one distribution representing capital gain dividends, although the Fund during any calendar year may make more than one distribution representing a return of capital.

Form of Distributions

The Fund will use reasonable best efforts to make all distributions in cash and to have distributed the proceeds of the Fund's entire portfolio by the end of the Distribution Period. However in the event that the Fund continues to hold illiquid positions at the end of the Distribution Period, the Fund will not charge a Management Fee and will continue to hold such positions until liquidated or distributed to Limited Partners in kind. The Fund will disburse the current income and principal payments generated by such investments as received. The Fund will not be subject to any Management Fee after the end of the Distribution Period, but the Fund may reserve sufficient funds to pay the ongoing expenses of the Fund. The Carried Interest, if any, after the Distribution Period will be allocated to Declaration at the time that any distribution is made with respect to such investments.

No Tax Distributions; Possibility of Material Current Tax

An investment in the Fund is likely (if the Fund is successful) to generate significant tax liabilities for the Limited Partners. However, no distributions will be made by the Fund to cover any taxes due on Limited Partners' investments in the Fund. Investors may not redeem capital from the Fund, and they must have other sources of capital available to them in order to pay such taxes.

Priority of Distributions

During the Distribution Period, all cash proceeds, as received by the Fund and subject to Reserves established by the Fund pursuant to the Limited Partnership Agreement and to the payment of Management Fees and expenses, will be allocated and distributed by the Fund to each Limited Partner and Declaration, in the following order of priority:

a. First, 100% to such Limited Partner until such Limited Partner has received 100% of such Limited Partner's Capital Contributions (irrespective of whether such Capital Contributions were used to make investments, pay Management Fees and expenses or any other purpose);

b. Second, 100% to such Limited Partner, until such Limited Partner has received the Hard Hurdle Return with respect to such Capital Contributions calculated from the time each such Capital Contribution was made through the date of each distribution;

c. Third, Thereafter, (i) 80% to such Limited Partner, and (ii) 20% to Declaration (the “Carried Interest”).

The Hard Hurdle Return is 8%, compounded semi-annually.

There are no Carried Interest “catch up” payments in respect of the Hard Hurdle Return. The Hard Hurdle Return reduces, solely for purposes of determining the Carried Interest, dollar-for-dollar the distributions deemed to be made to the Limited Partners (without, of course, in any respect reducing the distributions actually received by the Limited Partners).

The Carried Interest will be allocated (and subsequently distributed) by the Fund to Declaration as an allocable share of the Fund’s gains, not as a performance fee paid to a third party. As a result, rather than Limited Partners being allocated 100% of the Fund’s gains and then receiving an ordinary deduction (*i.e.*, a deduction which can offset ordinary income as well as capital gain) for a 20% performance fee, Limited Partners will receive no deduction, but the income allocated to them for tax purposes will be reduced by the amount of the Carried Interest.

Item 9.1(c) Management – Biographies

Set forth below are the professional experiences of certain officers and employees of Declaration. Such persons will not be engaged full time in the management of the Fund’s assets. Such persons may not necessarily continue to be so employed during the entire term of the Investment Advisory Agreement or may not continue to perform services for Declaration under the Investment Advisory Agreement.

James E. Shallcross is the Fund’s portfolio manager and has day-to-day responsibility for management of the Fund’s portfolio. Mr. Shallcross has served as the Fund’s portfolio manager since its inception. As Executive Vice President and Director of Portfolio Management at Declaration, Mr. Shallcross oversees the management of all fixed-income portfolios, supervises the investment staff and is a firm principal. He has been in the industry since 1986 and joined Declaration in 1991. Previously, Mr. Shallcross worked for Lehman Brothers and Stephenson & Co. He has a BSBA in Finance from the University of Denver and an MBA in Finance from New York University. Mr. Shallcross is a member of Declaration’s Investment Committee.

The SAI provides additional information about the Portfolio Manager’s compensation, other accounts managed by the Portfolio Manager and the Portfolio Manager’s ownership of securities in the Fund.

Other officers and employees of Declaration include:

William P. Callan, Jr.
President

Mr. Callan chairs Declaration's Investment Committee, manages portfolios, oversees research and product development, and is a firm principal. He has been in the industry since 1984 and joined Declaration in 1989. Previously, Mr. Callan worked for Merrill Lynch Capital Markets. He has a BBA in Finance from the Bernard M. Baruch College of the City University of New York.

Michael E. Stern
Executive Vice President, CDO Portfolio Manager

Mr. Stern oversees all aspects of Declaration's structured finance CDO products and funding programs and is a firm principal. He joined Declaration in 1989. He has a BS in Computer Science from Northwestern University. Mr. Stern is a member of Declaration's Investment Committee. He is also a member of the ASF CDO Collateral Managers Subforum Steering Committee.

Peter M. Farley, CFA
Senior Vice President, Portfolio Management

Mr. Farley manages corporate credit, corporate synthetic CDO products, and oversees CMBS / CRE CDO Trading and Research. He has been in the industry since 1995 and joined Declaration in 1996. Previously, Mr. Farley worked for GIT Investment Funds. He has a BA in Economics and Political Science from the University of Connecticut and an MBA from The George Washington University. Mr. Farley is a member of the CFA Institute and the Washington Society of Investment Analysts. He is a member of Declaration's Investment Committee.

Wade M. Walters
Senior Vice President, Portfolio Management

Mr. Walters is a senior portfolio manager for ABS/RMBS, research and trading. He has been in the industry since 1988 and joined Declaration in 1990. Previously, he worked for the First National Bank of Maryland. Mr. Walters has an AS in Engineering from Johns Hopkins University, a BS in Finance from the University of Baltimore and an MS in Finance from Drexel University. He is a member of Declaration's Investment Committee.

Bond Griffin, CFA
Vice President, ABS Portfolio Management, Research and Trading

Mr. Griffin is responsible for security analysis and strategy development for ABS. He has been in the industry since 2003 and joined Declaration in 2007. Previously, Mr. Griffin worked for Hyperion Brookfield Asset Management. He has an MS in Financial Engineering from Columbia University and a BS in Electrical Engineering from the University of California. Mr. Griffin is a member of the CFA Institute.

Jennifer P. Bowers, CFA
Vice President, Portfolio Management

Ms. Bowers manages LIBOR Plus portfolios and trades ABS and CMOs. She joined Declaration in 1993. Ms. Bowers has a BS from Vanderbilt University. She is a member of the CFA Institute and the Washington Society of Investment Analysts.

Vivek Agrawal
Vice President, Investment Research

Mr. Agrawal conducts corporate bond analysis specializing in the financial sector, monitors existing exposures, and performs credit surveillance and relative valuation analysis. He has been in the industry since 1996 and joined Declaration in 2004. Previously, Mr. Agrawal worked for H.C. Wainwright & Co., BlueStone Capital Partners and Bank of America. He has a BS in Finance from the University of Maryland and an MBA in Finance from Fordham University.

Joshua Kuhnert, CFA
AVP, Portfolio Management

Mr. Kuhnert is responsible for the enhancement of risk and pricing models used in synthetic CDO management. He also assists with overall portfolio management and CMBS research. He has been in the industry since 2002. Mr. Kuhnert previously worked for ASB Capital Management, Commonwealth Advisors and Tricon Energy. He has an MS in Financial Engineering from Columbia University and a BA in Economics and Philosophy from Northwestern University. Mr. Kuhnert is a member of the CFA Institute.

Yiyan Gao
AVP, Investment Research

Ms. Gao focuses on investment analytics and portfolio risk management with a special emphasis on quantitative analysis of mortgage-related ABS credit. She joined Declaration in 2000. Ms. Gao has an MS in Computer Science from the University of Maryland.

David Whitaker, CFA
AVP, Quantitative Research

Mr. Whitaker is responsible for constructing quantitative risk models, focusing on credit derivatives and structured products. He has been in the industry since 1989 and joined Declaration in 2004. Previously, Mr. Whitaker worked for Ned Davis Research, Mullin Consulting, Management Compensation Group and First Capital Life Insurance Company. He has an MBA and MS in Computational Finance from Carnegie Mellon University (where he was a Henry Ford II Scholar) and a BA in Mathematics from the University of California. Mr. Whitaker is a member of the CFA Institute.

Brad A. Murphy
AVP, Investment Research

Mr. Murphy conducts real estate-related ABS bond analysis, monitors existing exposures, and performs credit surveillance and relative valuation analysis. He joined Declaration in 2003. Previously, Mr. Murphy worked for Chevy Chase Bank as a risk analyst. He has a BA in Economics from The University of Florida.

Lester Guillard III
Senior Vice President, Structured Products

Mr. Guillard is responsible for all product and investment operations and administration. He has been in the industry since 1995 and joined Declaration in 1999. Previously, Mr. Guillard worked for Daiwa Securities America and National Westminster Bank. He has a BS from Drexel University. He is a member of Declaration's Investment Committee.

John W. Pluta, CFA
Senior Vice President, Client Service & Marketing

Mr. Pluta directs Declaration's product development, marketing, sales and client service efforts. He has 28 years of experience in institutional investment management product development and marketing with focus on fixed-income. Previously, Mr. Pluta worked for Equitable and the John Hancock Bond & Corporate Finance Group. He holds a BA from the University of Michigan. Mr. Pluta is a member of the CFA Institute.

Edmund Price
Senior Vice President & General Counsel

Mr. Price joined Declaration in 2006 following eight years in parent John Hancock's Investment Law division. He was formerly with Debevoise & Plimpton in Washington and London. Mr. Price has a JD from The George Washington University and a BA from Colgate University. Mr. Price is a member of the bars of New York and Massachusetts.

Carole R. Parker
Vice President, Compliance

Ms. Parker conducts compliance monitoring of client accounts as well as audit of internal controls and policies and procedures. She joined Declaration in 2003. Previously, Ms. Parker worked for Oxford Mortgage Securities Corporation and the JHM Group and has over 20 years experience in the mortgage securities industry. She is a Certified Compliance Specialist, National Regulatory Services, and is a member of the National Society of Compliance Professionals.

Scott Barnes
Vice President and Controller

Mr. Barnes is responsible for all financial reporting and analysis at Declaration and serves as the controller for various alternative products. He joined Declaration in 2003. Previously, Mr. Barnes worked for Virchow Krause & Company, a regional CPA firm in Chicago and at Hanley-Wood LLC, a business to business media and information company. He obtained his CPA designation in 1996, and graduated from the University of Wisconsin with a BS in Accounting.

Item 9.1(c) Portfolio Management

James E. Shallcross, whose biography appears in Item 9.1(b) above, is responsible for the day-to-day management of the Fund's investments.

Item 9.1(d) Administrator

LaSalle National Bank Association, 540 West Madison Street, Chicago, IL 60661, is the Fund's administrator and custodian ("LaSalle"). LaSalle assists the Fund with day-to-day administrative matters and acts as the Fund's registrar and transfer agent. The Fund pays customary fees and expenses to LaSalle.

Item 9.1(e) Custodian

LaSalle also serves as custodian of the Fund's assets. LaSalle clears and settles all securities transactions, and custody the Fund's assets. All custodied assets are held in the name of the Fund.

Item 9.1(f) Expenses; Management Fees; Distributions

Background

The Fund accepted capital commitments ("Capital Commitments") as of May 15, 2008 and September 22, 2008 (each, a "Closing Date"). From the first Closing Date through the earlier of: (1) the date that all Capital Commitments have been drawn down; and (2) May 15, 2009, or possibly earlier if a Key Person Event (as defined below) occurs (the "Draw Period"), Limited Partners are obligated to make capital contributions ("Capital Contributions") to the Fund upon capital calls ("Capital Calls") made by Declaration. Capital Calls are made by Declaration *pro rata* in accordance with each Limited Partner's unfunded Capital Commitment; *provided, however*, that the Capital Calls of Limited Partners making Capital Commitments as of the second Closing Date include such additional amounts so that, immediately following the relevant drawdown date, all Limited Partners have each made Capital Contributions *pro rata* in accordance with their respective Capital Commitments. Declaration makes Capital Calls upon not less than ten business days' prior notice. Normally a Capital Call notice requires immediately available funds to be delivered to the Fund on the first business day of a given month.

Capital Calls on Limited Partners making Capital Commitments as of the second Closing Date equal the aggregate Net Asset Value of the Fund as of such date *multiplied by* the fraction the numerator of which is each Limited Partner's Capital Commitment and the denominator of which is the aggregate of all Partners' Capital Commitments. The "Net Asset Value" of the Fund shall be calculated by taking into account all assets and liabilities of the Fund, including administration, insurance, legal, audit and other professional fees and expenses.

Each Capital Contribution is added to the current net asset value of a Limited Partner's Interest in determining such Limited Partner's percentage interest in the Fund. This has the same effect in terms of each Limited Partner's *pro rata* participation in the Fund as issuing Interests (were the Interests unitized) at net asset value.

Declaration will invest and reinvest the Fund's capital from the first Closing Date through the earlier of: (i) the date, if any, on which Declaration determines that adequate investment opportunities for the Fund no longer are available; and (ii) May 15, 2010, or possibly earlier if a Key Man Event occurs (the "Reinvestment Period").

Declaration does not intend to cause the Fund to make any distributions during the Reinvestment Period.

At the end of the Reinvestment Period, Declaration may make a Capital Call (to the extent of any remaining Available Capital Commitments) in order to establish a reserve to pay costs incurred by the

Fund during the Distribution Period. Declaration may also pay Fund expenses from the Fund's current income, principal payments and sale proceeds.

A "Key Person Event" will occur if: (i) James E. Shallcross, and (ii) any two of William P. Callan, Jr., Peter M. Farley and Bond Griffin become permanently unavailable to manage the Fund's portfolio by reason of their death, disability or cessation of employment by Declaration. Declaration will deliver a written notice to all Limited Partners within ten business days after the occurrence of any Key Person Event, and no Capital Calls may be made during the twenty business day period following a Key Person Event.

If a Key Person Event occurs during the Draw Period, each Limited Partner will have the right to discontinue making additional Capital Contributions.

If fewer than all Limited Partners have opted to discontinue additional Capital Contributions, then the Draw Period will continue, Declaration will continue to make Capital Calls on those Limited Partners that have not opted to discontinue additional Capital Contributions, and the Reinvestment Period will terminate thirty days after the end of the Draw Period. Those Limited Partners that have opted to discontinue additional Capital Contributions will remain responsible for Management Fees and expenses. Their respective Fund Percentages may decline as compared to those of Limited Partners that continue to make Capital Contributions.

If all Limited Partners have opted to discontinue additional Capital Contributions, then the Draw Period and the Reinvestment Period will terminate twenty business days after the Key Person Event.

If a Key Person Event occurs after the end of the Draw Period but before the end of the Reinvestment Period, the Reinvestment Period will terminate immediately.

Although the Fund will use reasonable best efforts to have distributed the proceeds of the Fund's entire portfolio by the end of the Distribution Period, it is possible that the Fund will hold positions which can not be liquidated on economically viable terms by such date.

Any investments remaining in the Fund's portfolio after the Distribution Period will be held by the Fund until liquidated or distributed to Partners in kind. The Fund will disburse the current income and principal payments generated by such investments as received, except that it may retain sufficient funds to pay its ongoing expenses. After the Distribution Period, no Management Fee will be paid and any Carried Interest after the Distribution Period will be allocated to Declaration at the time that any distribution is made with respect to such investments.

Expenses

Organization and Offering Costs

The organizational and offering costs of the Fund are paid by Declaration.

The costs of the Public Offering will be paid from its proceeds or by Declaration.

Operating Expenses

The Fund pays its operating costs, which could be significant, and which includes trading, financing, insurance, legal, accounting, auditing, reporting and filing costs, as well as the fees of LaSalle, as well as any extraordinary expenses and the fees and expenses of the Independent Directors.

The Fund also bears its brokerage commissions and other transaction fees in connection with the acquisition and disposition of its positions, as well as custodian fees for the Fund's assets.

Declaration does not use "soft dollar" arrangements. The Fund does not pay any internal operating costs of Declaration (*e.g.*, salaries, bonuses or office rent).

Transaction Costs

The Fund pays its transaction costs (*e.g.*, "bid ask" spreads, brokerage commissions, etc.). The Fund's level of trading and portfolio turnover is expected to be low, but may be high as compared to other fixed-income investment funds because of its focus on stressed and distressed mortgage investments. Its transaction costs may include, but are not limited to, due diligence expenses, legal fees, tax expenses, appraisal expenses, consultants' fees and "broken deal" costs. Furthermore, the markets in which the Fund will concentrate its trading are less efficient than other fixed-income markets, so that "bid ask" spreads tend to be wider and transaction costs higher.

Item 9.1(g) Not Applicable

Item 9.2(a) Not Applicable

Item 9.2(b) Not Applicable

Item 9.2(c) Not Applicable

Item 9.2(d) Not Applicable

ITEM 9.3. – CONTROL PERSONS.

John Hancock is presumed to "control" the Fund as such term is defined under the 1940 Act because it owns more than 25% of the Fund's voting securities. See "*Item 9.1(b) Management – Declaration Management & Research LLC*" for more information on John Hancock.

ITEM 10. – CAPITAL STOCK, LONG-TERM DEBT, AND OTHER SECURITIES.

The Fund is organized as a limited partnership under the laws of the State of Delaware and is expected to be classified as a partnership for income tax purposes.

The beneficial interests in the Fund are divided into limited partnership interests. The number of Interests in the Fund are unlimited. Limited Partners have no preemptive or other rights to subscribe to any additional Interests or other securities issued by the Fund. The minimum Capital Contribution of each Limited Partner to the capital of the Fund is such amount as the Board in its sole and absolute discretion may determine from time to time. The amount of the initial Capital Contribution of each Limited Partner is recorded on the books and records of the Fund upon acceptance as a contribution to the capital of the Fund. The Directors are not entitled to make voluntary contributions of capital to the Fund as Directors of the Fund, but may make voluntary contributions to the capital of the Fund as Limited Partners. The Board has full power and authority, in their sole discretion, and without obtaining Limited Partner approval, (a) to issue original or additional Interests at such times and on such terms and conditions as they deem appropriate, and (b) to take such other action with respect to the Interests as the Board may deem desirable.

The Fund shall be dissolved only upon the occurrence of one of the following events: (a) the withdrawal, bankruptcy, or dissolution of the last remaining general partner, unless the business of the Fund is continued within 90 days following the occurrence of such event by the vote or written consent of a majority (as defined in the 1940 Act) of the Fund Percentages; (b) upon the recommendation of the General Partner and the affirmative vote to dissolve the Fund by a majority of the Directors (including the vote of a majority of the Independent Directors); or (3) upon the failure of Partners to approve successor Directors at a meeting called by the General Partner in accordance with Section 2.10(c) of the Limited Partnership Agreement when no Director remains to continue the business of the Fund.

The Fund, as permitted by the 1940 Act, may merge or consolidate with or into one or more limited partnerships formed under the Delaware Act or other business entities (as defined in Section 18-209(a) of the Delaware Act) pursuant to an agreement of merger or consolidation which has been approved in the manner contemplated by Section 18-209(b) of the Delaware Act.

ITEM 10.2. – LONG-TERM DEBT.

Not applicable.

ITEM 10.3 – GENERAL.

Not applicable.

ITEM 10.4 – TAXES.

Tax Classification of the Fund

Declaration has been advised by Sidley Austin LLP that the Fund will be treated as a partnership for federal income tax purposes and not as an association taxable as a corporation or as a publicly traded partnership taxable as a corporation, based on its facts and circumstances and based on certain representations made to Sidley Austin LLP by Declaration. This conclusion is not binding on the Internal Revenue Service (“IRS”) or on any court, and there can be no assurance that the IRS will not assert that the Fund should be treated as an association taxable as a corporation or as a publicly traded partnership taxable as a corporation.

If it were determined that the Fund should be classified for federal income tax purposes as an association taxable as a corporation or as a publicly traded partnership taxable as a corporation (as a result of a change in law, changes in IRS ruling guidelines or administrative positions, a change in facts or otherwise), income and losses of the Fund would be reflected on its own federal income tax return rather than being passed through to the Limited Partners, and the Fund would be required to pay federal income tax at corporate income tax rates on its net ordinary income and capital gains, thereby substantially reducing the amount of cash available for investment or for distribution to the Limited Partners. Furthermore, all or a portion of any distributions made by the Fund to the Limited Partners could be treated as ordinary dividend income regardless of the source from which they were generated. The following discussion assumes that the Fund will be treated as a partnership for federal income tax purposes.

Taxation of Limited Partners

The Fund, as a partnership, will not be subject to federal income tax. Rather, each Limited Partner will be required to report on its federal income tax return such Limited Partner’s allocable share of the Fund’s income, gains, losses, deductions, credits and other items for the Fund’s taxable year ending

with or within the Limited Partner's taxable year, whether or not any distribution of cash or other property is made to the Limited Partner in that year.

At the end of each taxable year, items of Fund income, expense, gain, loss and deduction, as determined for federal income tax purposes, will be allocated among the Limited Partners that held Interests during such taxable year. A Limited Partner's distributive share of such items for federal income tax purposes generally is determined by the allocations made pursuant to the Limited Partnership Agreement, unless the items so allocated do not have "substantial economic effect" and are not in accordance with the Limited Partners' interests in the Fund. Under the Limited Partnership Agreement, tax allocations are generally made in a manner consistent with the financial allocations made to the Limited Partners' Capital Accounts and therefore either should have substantial economic effect or should be in accordance with the Limited Partners' respective interests in the Fund.

Accrual of Interest and Effect of Payment Uncertainty

The Fund will be an accrual method taxpayer for federal income tax purposes, and will generally be required to take interest income into account as it accrues rather than when it is paid. However, the Fund may generally not be required to include interest in income as it accrues if the interest is "uncollectible" when the right to receive the income becomes fixed. This factual standard, which must be met in order for an accrual method taxpayer to cease to accrue interest on the basis that the interest in it is uncollectible, is difficult to apply in any particular case, and the IRS may disagree with any determination by the Fund that interest is uncollectible. Generally, accrual of interest income for federal income tax purposes may not cease unless it is reasonably certain that the interest will not be collected.

In addition, if the Fund holds debt instruments that are issued with original issue discount, such original issue discount will be includible in taxable income in accordance with the rules concerning original issue discount. It is unclear whether the holder of a debt instrument issued with original issue discount may cease to accrue such original issue discount where the issuer's ability to pay on the debt instrument is doubtful. The IRS has generally taken the position in audits and examinations that there is no "uncollectibility" exception to the accrual of original issue discount, despite its similarity to accrued and unpaid interest.

To the extent that the Fund purchases debt instruments at a discount that were not issued at a discount, that discount may be "market discount" under the Code and any accrued market discount required to be reported as income upon the receipt of a partial principal payment will be treated as ordinary income for federal income tax purposes.

On the other hand, if any "security" held by the Fund becomes worthless, any loss resulting therefrom will be treated as a capital loss under Section 165(g) of the Code rather than an ordinary loss. A "security" includes a share of stock in a corporation or any debt instrument issued by a corporation or government with interest coupons or in registered form. The deductibility of capital losses is subject to significant limitations under the Code.

If partial payments on a debt instrument are received by the Fund in a circumstance in which it is reasonably certain that (i) not all amounts due under the debt instrument will be paid, (ii) less than the principal amount of the debt instrument will ultimately be paid, or (iii) the Fund will not even recover the amount of its investment in the debt instrument, the treatment of such partial payments, whether as interest or as market discount or as a return of capital, is unclear. It is possible that the Fund may be required to report ordinary income upon the receipt of such partial payments and to claim a bad debt or worthless security loss, which may be characterized as a capital loss subject to significant limitations on deductibility, upon the final liquidation of its interest in that debt instrument.

In certain circumstances, holdings by the Fund in debt securities may result in ordinary income being reported in earlier tax years with respect to such securities that may ultimately be offset only by capital losses in later years upon the final liquidation or the partial or total worthlessness of such securities.

As the Fund will hold a substantial part of its portfolio in debt securities, Limited Partners may be required to include in income accrued interest and original issue discount, which will be ordinary income, with respect to debt instruments held by the Fund even though there is uncertainty as to whether such amounts will ever be received by the Fund. If an item of income is accrued and subsequently becomes uncollectible, the effect is a deduction, rather than the elimination of the accrual, even if the item becomes uncollectible in the same tax year that it is accrued. Accordingly, Limited Partners may be subject to character mismatches where the Fund is required to accrue an amount of interest or original issue discount with respect to a capital asset which is subsequently sold at a loss.

Limitations on Deductibility of Fund Losses by Limited Partners

The amount of any Fund loss that a Limited Partner is entitled to include on its income tax return is limited to such Limited Partner's adjusted tax basis for its Interest as of the end of the Fund's taxable year in which such loss occurred. Generally, a Limited Partner adjusted tax basis for its Interest is the amount paid for such Interest reduced (but not below zero) by such Limited Partner share of losses and expenses, and any distributions made to such Limited Partner, and increased by such Limited Partner's share of the Fund's income, including gains, and additional Capital Contributions made by such Limited Partner.

Cash Distributions

Cash received from the Fund by a Limited Partner as a distribution generally is not reportable as taxable income by such Limited Partner, except to the extent such distribution exceeds such Limited Partner's adjusted tax basis for its Interest. Any such excess is taxable to such Limited Partner as gain from the sale or exchange of such Interest. Because allocations of Fund income increase the tax basis for a Limited Partner's Interest at the end of the taxable year, cash distributions during the taxable year could result in taxable gain to a Limited Partner even though no gain would result if the same cash distributions were made following the Fund's allocation of income at the end of the taxable year.

A cash distribution in respect of all of a Limited Partner's Interest should generally result in the recognition of capital gain or loss for federal income tax purposes. Such gain or loss will be equal to the difference, if any, between the amount of such distribution and the Limited Partner's adjusted tax basis for its Interest (including such Limited Partner's distributive share of the Fund's income or loss for the year of such distribution). Such capital gain or loss will be short-term or long-term depending upon the Limited Partner's holding period for its Interest. However, if this fund holds unrealized receivables, a redeeming Limited Partner will recognize ordinary income to the extent of such Limited Partner's share of the gain on such unrealized receivables (as determined pursuant to the Code). 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 redeeming Limited Partner would recognize ordinary income.

Distributions in Kind

The Fund may make distributions in kind rather than in cash. In general, a Limited Partner will not recognize gain or loss on the distribution of property (other than cash as described above). The

Limited Partner's tax basis for any distributed property (other than property distributed in liquidation of the Limited Partner's Interest) will be the same as the Fund's tax basis in such property immediately prior to the distribution but not in excess of the Limited Partner's tax basis for its Interest. A Limited Partner which receives an in kind distribution of property in liquidation of its Interest will have a basis in such property equal to such Limited Partner's adjusted basis in its Interest, reduced by any money distributed in the transaction. Under certain circumstances, distributions of marketable securities are treated for federal income tax purposes as though they were distributions of cash in an amount equal to their fair market value as of the date of the distribution. However, the Fund may qualify for an exception to such treatment available for investment partnerships.

Debt Restructuring

There are a number of uncertainties under federal income tax law relating to debt restructurings. In general, a "significant modification" of a debt obligation is treated as a taxable event, with the resulting gain or loss measured by the difference between the principal amount (or, in some cases, the fair market value) of the debt after the modification and the holder's tax basis in such debt before the modification. Other than for certain modifications specified in Treasury Regulations, the determination of whether a modification is "significant" is based on all of the facts and circumstances. Therefore, it is possible that the IRS could take the position that a restructuring of a debt instrument acquired by the Fund amounts to a "significant modification" that should be treated as a taxable event even if the Fund did not so treat the restructuring on its tax return. A restructuring that results in a "significant modification" could also result in the conversion of market discount into original issue discount, causing holders to have to accrue discount income currently.

Tax on Capital Gains and Losses

The maximum tax rate for non-corporate taxpayers on adjusted net capital gain is 15% for most gains recognized on or before December 31, 2010. Adjusted net capital gain is generally the excess of net long-term capital gain (the net gain on capital assets held for more than 12 months) over net short-term capital loss (the net loss on capital assets held for 12 months or less). Capital losses are deductible by non-corporate taxpayers only to the extent of capital gains for the taxable year plus \$3,000. Net short-term capital gain (*i.e.*, net gain on assets held for 12 months or less) is subject to tax at the same rates as ordinary income. In general, a non-corporate taxpayer is not permitted to carry back a capital loss to prior taxable years.

Foreign Taxes and Foreign Tax Credits

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

Taxation of Foreign Currency Transactions Relating to Investment in Foreign Securities

Certain trading by the Fund in securities of foreign issuers may constitute "Section 988 transactions." Section 988 transactions include entering into transactions in which the amount paid or received is denominated in terms of a nonfunctional currency (or determined by reference to the value

thereof) other than the taxpayer's "functional" currency (*i.e.*, the U.S. dollar in the case of the Fund). In general, foreign currency gain or loss on Section 988 transactions is treated as ordinary income or loss. Various tax elections relating to the characterization of gains or losses attributable to such transactions may be available to the Fund.

Trading and Investing in Derivatives

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

General Tax Considerations

Limited Deduction for Certain Expenses

The Management Fee and other expenses of the Fund may be subject to the limitations imposed on miscellaneous itemized deductions, which as to individuals are deductible on a limited basis under Section 67(c) of the Code. Specifically, expenses subject to such limitations are deductible by a non-corporate taxpayer for federal income tax purposes only to the extent that those expenses, when combined with its other expenses deductible under Section 67(c) of the Code for the year, exceed 2% of its adjusted gross income (and would not be deductible at all for alternative minimum-tax purposes). The deductible portion of those expenses is further reduced by an amount equal to the lesser of (i) 3% of an individual's adjusted gross income that exceeds a threshold amount; and (ii) 80% of the amount of the individual taxpayer's miscellaneous itemized deductions otherwise allowable for that taxable year (the "3% phase-out"). For tax years beginning after December 31, 2005, and before January 1, 2010, the 3% phase-out will be reduced every two years. The 3% phase-out will be eliminated for tax years beginning after December 31, 2009.

Carried Interest

The Carried Interest will be reported by the Fund for tax purposes as a distributable share of the Fund's taxable profit allocated to Declaration rather than to the Limited Partners in accordance with their respective interests in the Fund. The IRS could contend that the Carried Interest should be treated as an "advisory fee" subject to the limitations on deductibility described above.

"At Risk" Limitation on Deductibility of Losses

A Limited Partner that is subject to the "at risk" limitations (generally, non-corporate taxpayers and certain closely held corporations) may not deduct losses of the Fund (including capital losses) to the extent that they exceed the amount it has "at risk" with respect to its interest in the Fund at the end of the year. The amount that a Limited Partner has "at risk" is generally the same as its adjusted tax basis in its Interest, except that it generally does not include any amount that it has borrowed on a non-recourse basis or from a person who has an interest in the Fund or a person related to such person. Losses denied under the "at risk" limitations are suspended and may be deducted in subsequent years, subject to these and other applicable limitations.

Passive Activity Rules

The investment activities of the Fund do not constitute a “passive activity,” with the result that losses resulting from a Limited Partner’s “passive activities” cannot be offset against the Fund’s income.

Syndication Fees

Neither the Fund nor the Limited Partners will be entitled to any deduction for any placement and/or referral fees paid to persons who introduce prospective investors.

Potential Consequences of Transfers of Interests

If immediately after a Limited Partner transfers an Interest, the Fund’s adjusted basis in its property exceeds the fair market value of such property by more than \$250,000, the Fund generally will be required to adjust the basis of its property with respect to the transferee Limited Partner. The Fund may make an election, if available, to eliminate the requirement to make such a basis adjustment.

Taxation of Tax-Exempt Partners

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

The Fund may not incur debt to finance its investment and trading activities. If the Fund does not incur debt to finance its investment and trading activities, generally none of the income or capital gains recognized by the Fund should constitute “unrelated debt-financed income” under Section 514 of the Code. However, if the Fund did incur such debt notwithstanding this prohibition, some of the income or capital gains recognized by the Fund may constitute “unrelated debt-financed income” under Section 514 of the Code. To the extent that income or gain of the Fund is characterized as “unrelated debt-financed income,” a tax-exempt investor in the Fund would be required to report such income or gain as UBTI and would be required to pay federal income taxes on such UBTI at the same rate as applicable to corporations or trusts (currently 35%). It is also possible that the IRS could assert that the amount of “unrelated debt-financed income” allocable to a tax-exempt investor exceeds the amount of net income allocable to such investor because, in general, only certain portions of the Fund’s trading activities may be debt-financed, and losses on other trading might not be allowed to offset gains on debt-financed trading.

In addition, income and gain recognized by a tax-exempt investor through its investment in the Fund will be treated as UBTI to the extent such tax-exempt investor borrowed funds that constitute “acquisition indebtedness” within the meaning of Section 514 of the Code to purchase its Interests in the Fund.

A charitable remainder trust that recognizes any UBTI in any taxable year is subject to a 100% tax on all of the trust’s UBTI earned during such year. Accordingly, an investment in the Fund may not be an appropriate investment for a charitable remainder trust and may be unsuitable for other tax-exempt investors.

Based on statutory “safe harbors”, the Fund will not be considered to be engaged in a U.S. trade or business, so long as (i) it is not considered a dealer in stocks, securities or commodities, and does not regularly offer to enter into, assume, offset, assign, or terminate positions in derivatives with customers, (ii) the Fund’s U.S. business activities (if any) consist solely of investing in and/or trading stocks or securities, commodities of a kind customarily dealt in on an organized commodity exchange (if the transaction is of a kind customarily consummated at such place) and derivatives for its own account, and (iii) any entity in which the Fund invests that is treated as a disregarded entity or partnership for federal income tax purposes is not engaged in, or deemed to be engaged in, a U.S. trade or business. The Fund intends to conduct its affairs in conformity with the statutory safe harbors.

Assuming the Fund is not engaged in, or deemed to be engaged in, a U.S. trade or business, non-U.S. Limited Partners (except as those described below) will generally not be subject to federal income tax on their allocable share of Fund income and the gain realized on the sale or disposition of Interests. However, such non-U.S. Limited Partners will be subject to a 30% U.S. withholding tax on the gross amount of their allocable share of income that is (i) U.S. source interest income that falls outside the “portfolio interest” exception or other available exception to withholding tax, (ii) U.S. source dividend income, and (iii) any other U.S. source fixed or determinable annual or periodical gains, profits, or income.

Non-U.S. Limited Partners who are resident alien individuals of the United States (generally, individuals lawfully admitted for permanent residence, or who have a “substantial presence,” in the United States) or for whom their allocable share of Fund income and gain, and the gain realized on the sale or disposition of a Fund interest, is otherwise effectively connected with their conduct of a U.S. trade or business will be subject to federal income taxation on such income and gains.

In addition, in the case of a non-resident alien individual, any allocable share of capital gains will be subject to a 30% federal income tax (or lower treaty rate if applicable) if (i) such individual is present in the United States for 183 days or more during the taxable year and (ii) such gain is derived from U.S. sources. Although the source of such gain is generally determined by the place of residence of the non-U.S. Limited Partners, resulting in such gain being treated as derived from non-U.S. sources, source may be determined with respect to certain other criteria resulting in such gain being treated as derived from U.S. sources. Non-resident alien individuals should consult their tax advisors with respect to the application of these rules to their investment in the Fund.

If, notwithstanding the Fund’s intention, the Fund were engaged in, or deemed to be engaged in, a U.S. trade or business for a taxable year, non-U.S. Limited Partners would also be deemed to be so engaged by virtue of their ownership of Fund interests and each non-U.S. Limited Partner would be required to file a federal income tax return for such year and pay tax on its income and gain that is effectively connected with such U.S. trade or business at the tax rates applicable to similarly situated U.S. persons. In addition, any non-U.S. Limited Partners that is a corporation for federal income tax purposes may be required to pay a branch profits tax equal to 30% (or lower treaty rate, if applicable) of the dividend equivalent amount for the taxable year.

State and Local Taxes

In certain cases, the Fund or its Limited Partners may be subject to state and local taxes in states in which the profits of the Fund are deemed to be sourced. Each Limited Partner may be required to report and pay state and local tax on such Limited Partner’s distributive share of the profits of the Fund in

the state and municipality in which the Limited Partner resides and/or other jurisdictions in which income is earned by the Fund.

Tax Audits

The tax treatment of Fund items is determined at the Fund level rather than at the Limited Partner level. Declaration is the “Tax Matters Partner” of the Fund with the authority to determine the Fund’s response to an audit. The limitations period for assessment of deficiencies and claims for refunds with respect to items related to the Fund is generally 3 years after the Fund’s return for the taxable year in question is filed, and Declaration has the authority to, and may, extend such period with respect to all Limited Partners. Certain tax positions which Declaration may elect to take on behalf of the Fund may increase the chance that the Fund’s return will be audited. If an audit results in an adjustment, all Limited Partners, current and former, may be required to pay additional tax, interest and, possibly, penalties. There can be no assurance that the Fund’s tax return will not be audited by the IRS or that no adjustments to such returns will be made as a result of such an audit.

EACH PROSPECTIVE INVESTOR SHOULD CONSULT WITH AND MUST RELY ON SUCH PROSPECTIVE INVESTOR’S OWN TAX ADVISERS REGARDING THE TAX CONSEQUENCES OF INVESTING IN THE FUND.

ITEM 10.5 – OUTSTANDING SECURITIES.

As of September 22, 2008, the Fund had received aggregate unfunded Capital Commitments of \$312,200,000. As of October 16, 2008, the Fund had received \$109,270,000 in capital contributions and, accordingly as of such date, the Fund had \$109,270,000 in outstanding limited partnership interests.

ITEM 10.6 – SECURITIES RATINGS.

Not applicable.

ITEM 11– DEFAULTS AND ARREARS ON SENIOR SECURITIES.

Not applicable.

ITEM 12 – LEGAL PROCEEDINGS.

Not applicable.

ITEM 13 – TABLE OF CONTENTS OF STATEMENT OF ADDITIONAL INFORMATION.

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PART B

STATEMENT OF ADDITIONAL INFORMATION

OCTOBER 27, 2008

DMR MORTGAGE OPPORTUNITY FUND LP

ITEM 14. COVER PAGE.

Part B of this Registration Statement on Form N-2 of DMR Mortgage Opportunity Fund LP should be read in conjunction with Part A. Capitalized terms used in this Part B and not otherwise defined have the meanings given them in Part A of this Registration Statement.

ITEM 15. – TABLE OF CONTENTS.

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ITEM 16. – GENERAL INFORMATION AND HISTORY.

Not applicable.

ITEM 17. – INVESTMENT OBJECTIVE AND POLICIES.

Part A contains basic information about the investment objective, policies and limitations of the Fund. This Part B supplements the discussion in Part A of the investment objective, policies, and limitations of the Fund.

The Fund's investment objective is to provide investors with attractive returns through long-biased opportunistic investing in stressed, distressed and other undervalued mortgage-backed securities and related fixed-income assets. It is anticipated that the Fund's returns (if any) will be captured through the cash flow generated by the securities it acquires at discounted prices and through capital appreciation.

Declaration employs a "bottom-up" approach to security selection, seeking to identify assets which may be acquired at prices below their intrinsic value. Declaration will acquire investments over a 12- to 24- month period, using analysis at the loan level and modeling the structural characteristics of each transaction. Declaration has a value orientation in security selection, seeking a margin of safety or cushion between likely, estimated performance expectations and extreme loss outcomes. This value orientation is particularly applicable to the Fund, which has been formed to invest in an opportunity set characterized by material undervaluations of a number of credit instruments and is based on practical

experience that quantitative models and base case loss and prepayment assumptions do not fully describe risk. In determining a reasonable purchase price for assets, Declaration will seek an expected return profile which should hold up to a margin of slippage in its loss forecasts.

The Fund is not diversified, but rather has been formed as a “special purpose vehicle” in an attempt to capitalize on mortgage credit market conditions that began in 2007 and are ongoing as of the date of this Registration Statement. The Fund seeks to produce consistent absolute returns by applying an asset-level bottom-up analysis combined with multiple stress scenario analysis to find value opportunities in mortgage credit markets. Declaration believes that there are numerous opportunities in the mortgage credit markets that can allow the Fund to benefit from favorable changes in prepayment speeds, default rates and structural step-downs.

The Fund invests in debt securities that are sold at a discount, including non-investment grade and non-rated securities. These investments will consist primarily of residential mortgage-backed securities, commercial mortgage-backed securities, second lien loans and structured finance collateralized debt obligations, but also may include mortgage-related corporate credits and other mortgage-related investments. The Fund also may employ interest rate and credit derivatives for risk mitigation.

The Fund may not incur any indebtedness for borrowed money.

An investment in the Interests is speculative and involves a high degree of risk. The investment opportunity from which Declaration is seeking to profit in the currently disrupted credit markets also involves an unusually high degree of risk. There can be no assurance that the Fund will achieve its objectives. Investors must be prepared to lose all or substantially all of their investment in the Interests.

Fundamental Investment Restrictions

Without the approval of the vote of the majority of its outstanding voting securities, the Fund:

- (1) May not borrow money or issue any senior security, to the extent permitted under the 1940 Act, and, as interpreted, modified, or otherwise permitted by regulatory authority having jurisdiction, from time to time.
- (2) May not act as underwriter of securities of other issuers, except that to the extent that in connection with the disposition of portfolio securities, it may be deemed to be an underwriter under the federal securities laws.
- (3) May not deviate from its policy in respect of concentration of investments in mortgage-related industries.
- (4) May not purchase or sell real estate, although it may purchase and sell securities secured by real estate or interests therein, or securities issued by companies which invest in real estate, or interests therein.
- (5) May make loans only as permitted under the 1940 Act, and, as interpreted, modified, or otherwise permitted by regulatory authority having jurisdiction, from time to time.
- (6) May not purchase or sell physical commodities and commodity contracts, except that the Fund may: (i) enter into futures contracts and options thereon in accordance with applicable law; and (ii) purchase and sell physical commodities if acquired as a result of ownership of securities or other instruments. The Fund will not consider stock index,

currency, and other financial futures contracts, swaps, or hybrid instruments to be commodities for purposes of this investment policy.

- (7) Change the nature of its business so as to cease to be an investment company.
- (8) Change its subclassification as a non-diversified company.

Non-Fundamental Investment Restrictions

Except as otherwise indicated, the Fund may change its investment objective and any of its policies, restrictions, strategies, and techniques if the Board believes doing so is in the best interests of the Fund and the Limited Partners. The Fund's investment objective is not a fundamental policy and it may be changed by the Board without Limited Partner approval. Notice will be provided to Limited Partners prior to any such change.

From the end of the Draw Period to the end of the Reinvestment Period, Declaration intends to adhere to the following investment guidelines in implementing the Fund's investment strategy:

- (1) The Fund will not invest more than 5% of its Net Asset Value in any single position.
- (2) The Fund may invest up to 100% of its Net Asset Value in residential mortgage-backed securities ("RMBS").
- (3) The Fund will not invest more than 35% of its Net Asset Value in commercial mortgage-backed securities ("CMBS") and collateralized debt obligation ("CDO") positions primarily backed by CMBS, combined.
- (4) The Fund will not invest more than 25% of its Net Asset Value in structured finance CDOs primarily backed by RMBS, and will not invest in any structured finance CDO issue rated below Aa3/AA- at the time of its initial issuance.
- (5) The Fund will not invest in long credit default swap ("CDS") positions (i.e., the Fund will not enter into CDS as a seller of credit protection under CDS positions).
- (6) The Fund will not invest more than 35% of its Net Asset Value in short credit positions; all short CDS positions will be entered into for risk mitigation purposes only.
- (7) The Fund will not invest more than 15% of its Net Asset Value in corporate credit instruments, each of which must be mortgage- or mortgage-industry related.
- (8) The Fund will invest at least 80% of its assets, under normal circumstances, in mortgage-related investments and investments in the mortgage industry.

Compliance with the foregoing investment guidelines will be measured on (1) the first business day after the end of the Draw Period, (2) the end of the Reinvestment Period and (3) the trade date of each new investment made between dates (1) and (2). Market movements, distributions and other factors may result in the Fund's portfolio exceeding any one or more of the foregoing limits at any given point in time. Furthermore, due to the illiquidity of the Fund's portfolio and difficulty in valuing its positions, allocations to specific holdings or sectors may from time to time exceed one or more of the foregoing guidelines. Declaration will not be required to liquidate positions in order to bring the Fund's portfolio into compliance with the foregoing limits. In general, Declaration will not be liable for the Fund

exceeding any one or more of the foregoing investment guidelines provided that Declaration has not acted in bad faith.

No Diversification Requirement

Other than the foregoing fundamental and non-fundamental investment restrictions, Declaration is not subject to any formal diversification requirements in investing the Fund's portfolio. Within the credit market sector, the Fund's positions may be concentrated as to type of instrument, issuer, duration and any other dimension.

There can be no assurance that the investment objective of the Fund will be achieved, that its concentrated investment strategy will be successful or that the Fund will avoid substantial or total losses.

ITEM 18. — MANAGEMENT.

The Board of the Fund (the "Board") has overall responsibility to manage and control the business operations of the Fund on behalf of its members. At least a majority of the Board are and will be persons who are not "interested persons," as defined in Section 2(a)(19) of the 1940 Act. Subject to the provisions of the Limited Partnership Agreement and Delaware law, the Directors have all powers necessary and convenient to carry out this responsibility.

The Directors and officers of the Fund, their addresses, their dates of birth, and descriptions of their principal occupations during the past five years are listed below.

Name, Address, and Birth Date	Position(s) Held with Fund	Term of Office and Length of Time Served	Principal Occupation(s) During the Past 5 Years	Number of Portfolios in Fund Complex Overseen by Director	Other Directorships Held by Director
Independent Directors					
William T. Lloyd	Director	Since Inception	Managing Director, Pergamon Advisors (2007 until May 30, 2008); Founder and Managing Director, Coral Bay Capital LLC (2006 to present); Director and Research Portfolio Strategist, Bridgewater Associates (2003 to 2006); Managing Director, Barclays Capital (1997 to 2003); Director, iBoxx Ltd. (2001-2003)	1	Director, Coral Bay Capital
Paul F. Malvey	Director	Since Inception	Consultant, World Bank/ International Monetary Fund (1995 to present); Financial Market Consultant, Barclays Capital (2003	1	None

Name, Address, and Birth Date	Position(s) Held with Fund	Term of Office and Length of Time Served	Principal Occupation(s) During the Past 5 Years	Number of Portfolios in Fund Complex Overseen by Director	Other Directorships Held by Director
			to 2006)		
David Sislen	Director	Since Inception	Founder and President, Bristol Capital Corporation (1986 to present); Director, Landmark Land Company (2004 to present)	1	Director, Landmark Land Company
Directors who are "Interested Persons"					
William P. Callan, Jr.	Director, President and Chief Executive Officer	Since Inception	President, Declaration Management & Research LLC	1	Declaration Management & Research LLC

Officers

Name, Address, and Birth Date	Positions Held with Fund	Principal Occupation(s) During the Last Five Years
William P. Callan, Jr.	President and Chief Executive Officer	President, Declaration Management & Research LLC
Lester Guillard III	Vice President and Chief Financial Officer	Senior Vice President (since 2006), Vice President (2002 to 2006), Declaration Management & Research LLC
James E. Shallcross	Chief Investment Officer	Executive Vice President (since 2005), Senior Vice President (1999 to 2005), Declaration Management & Research LLC
Carole R. Parker	Chief Compliance Officer	Vice President & Chief Compliance Officer (since 2004), Vice President (2003 to 2004), Declaration Management & Research LLC
Edmund H. Price	Secretary	Senior Vice President & General Counsel (since 2006), Declaration Management & Research LLC; Senior Counsel, John Hancock Life Insurance Company (2002 to 2006)
Scott L. Barnes	Controller and Assistant Secretary	Vice-President, Declaration Management & Research LLC

Committees of the Board

The Board has formed an Audit Committee that is responsible for: overseeing the Fund's accounting and financial reporting policies and practices, its internal controls, and, as appropriate, the internal controls of certain service providers; overseeing the quality and objectivity of the Fund's financial statements and the independent audit of those financial statements; and acting as a liaison between the Fund's independent auditors and the full Board. The Audit Committee recommends the

selection, retention, or termination of the Fund’s auditors, evaluates their independence, and reviews their fees. The Audit Committee currently consists of each of the Fund’s Independent Directors.

The valuation committee of the Fund (the “Valuation Committee”), subject to the oversight of the Board, generally reviews the Fund’s valuation methodologies, valuation determinations, and any information provided to the Valuation Committee by the Adviser. The Valuation Committee has been assigned to act in accordance with the Fund’s valuation procedures as approved by the Board. Changes in its membership are subject to Board notification. The Board reviews matters arising from the Valuation Committee’s considerations. Limited Partners may request information about the members of the Valuation Committee by written request to the Fund.

The Board has formed a Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee has the power to nominate directors of the Fund who are not “interested persons” of the Fund, as that term is defined in the 1940 Act, and to nominate officers of the Fund and appoint officers of the Fund to serve until the next meeting of the Board succeeding such action. The Committee currently consists of each of the Fund’s Independent Directors. The Nominating Committee does not currently have a policy regarding whether it will consider nominees recommended by Limited Partners.

All actions taken by a committee of the Board will be recorded and reported to the full Board at their next meeting following such actions.

Director Ownership of Securities

The dollar range of equity securities owned by each Director is set forth below.⁽¹⁾

Name of Director	Dollar Range of Equity Securities in the Fund as of October 16, 2008 ⁽¹⁾	Aggregate Dollar Range of Equity Securities in all Registered Investment Companies Overseen by Director in Family of Investment Companies as of October 16, 2008 ⁽¹⁾
Independent Directors		
William T. Lloyd	None	None
Paul F. Malvey	None	None
David Sislen	None	None
Interested Director		
William P. Callan, Jr. ⁽²⁾	None	None

(1) The dollar ranges of equity securities reflected in the table above are as follows: None; \$1 to \$10,000; \$10,001 to \$50,000; \$50,001 to \$100,000; or over \$100,000.

(2) Interested Person as defined under the 1940 Act. Interested Persons who are employees of Declaration and/or any of its Affiliates and who serve as Directors do not receive compensation from the Fund.

Independent Director Ownership of Securities

The table below provides information regarding the ownership by each Independent Director (and his immediate family members) of securities of the Adviser or the placement agent, and the ownership of securities in an entity controlling, controlled by or under common control with the Adviser or the placement agent (not including registered investment companies), as of October 16, 2008.

Name of Director	Name of Owners and Relationship to Director	Company	Title of Class	Value of Securities	Percentage of Class
William T. Lloyd	N/A	N/A	N/A	\$0	N/A
Paul F. Malvey	N/A	N/A	N/A	\$0	N/A
David Sisen	N/A	N/A	N/A	\$0	N/A

Director Compensation

The Fund pays each Independent Director a fee of \$1,000 per Board meeting (\$250 in the case of a telephonic Board meeting), plus an annual retainer of \$16,000. Mr. Sisen, as chairman of the Audit Committee, will receive an additional annual fee of \$1,000. In addition, the Fund reimburses each of the Independent Directors for travel and other expenses incurred in connection with attendance at such meetings. Each of the Independent Directors is a member of the Audit Committee and/or Nominating and Corporate Governance Committee, and receives a fee for each meeting attended. Other officers and Directors of the Fund receive no compensation.

Directors and officers of the Fund also may be trustees/directors and officers of some or all of the other investment companies managed by Declaration or its affiliates (the "Fund Complex"), including the Master Fund.

The following table summarizes the compensation paid to the Directors of the Fund, including Committee fees, for the period beginning upon the commencement of Fund operations through December 31, 2008.

NAME OF DIRECTOR	AGGREGATE COMPENSATION FROM FUND	PENSION OR RETIREMENT BENEFITS ACCRUED AS PART OF FUND EXPENSES	ESTIMATED ANNUAL BENEFITS UPON RETIREMENT
William T. Lloyd	13,666.67	N/A	N/A
Paul F. Malvey	13,666.67	N/A	N/A
David Sisen	14,666.67	N/A	N/A

ITEM 19. – CONTROL PERSONS AND PRINCIPAL HOLDERS OF SECURITIES.

John Hancock is presumed to "control" the Fund as such term is defined under the 1940 Act because it owns more than 25% of the Fund's voting securities. See "Item 9.1(b) Management – Declaration Management & Research LLC" for more information on John Hancock.

ITEM 20. – INVESTMENT ADVISORY AND OTHER SERVICES.

Under the Investment Advisory Agreement, the Fund has delegated to Declaration Management & Research LLC, a registered investment adviser with headquarters at 1800 Tysons Boulevard, Suite 200, McLean, Virginia 22102, plenary authority over the investment and trading activities of the Fund, subject to the ultimate supervision of and subject to any policies established by the Board and the requirements of the 1940 Act.

Declaration is an indirect wholly-owned subsidiary of John Hancock Life Insurance Company (“John Hancock”). John Hancock, an indirect wholly-owned subsidiary of Manulife Financial Corporation (“Manulife Financial”), is one of the largest life insurance companies in the United States. Founded in 1862, John Hancock offers a broad range of financial products and services, including whole life, term life, variable life, and universal life insurance, as well as college savings products, fixed and variable annuities, long-term care insurance, mutual funds and various forms of business insurance.

Manulife Financial is a leading Canadian-based financial services group serving millions of customers in 19 countries and territories worldwide. Operating as Manulife Financial in Canada and Asia, and primarily through John Hancock in the United States, Manulife Financial offers clients a diverse range of financial protection products and wealth management services through its extensive network of employees, agents and distribution partners. Funds under management by Manulife Financial and its subsidiaries were Cdn\$400 billion as of June 30, 2008.

Declaration currently serves as investment adviser for a number of institutional clients, including managed accounts and investment funds, and Declaration and its affiliates in the future intend to serve as investment manager for other such clients. Declaration may simultaneously or at different times seek to purchase or sell investments for the Fund and any other investment fund for which Declaration serves as investment manager, or for its other clients or affiliates. In addition to third-party client accounts, Declaration manages accounts of affiliates or accounts that may combine affiliate, employee and/or third party funds.

The Investment Advisory Agreement has an initial term of two years, and will continue in effect year to year thereafter, but only so long as such continuance is specifically approved at least annually by the affirmative vote of: (i) a majority of the members of the Fund’s Independent Directors, cast in person at a meeting called for the purpose of voting on such approval; and (ii) a majority of the Fund’s Board or the holders of a majority (as defined in the 1940 Act) of the outstanding voting securities of the Fund. The Investment Advisory Agreement may nevertheless be terminated at any time, on 60 days’ written notice, by the Fund’s Board, by vote of holders of a majority in interest of the Limited Partners, or by Declaration as investment adviser. The Investment Advisory Agreement will also be automatically be terminated in the event of its “assignment” for purposes of the Advisers Act or the 1940 Act (unless consent to such assignment has been obtained).

The Management Fee is paid to Declaration by the Fund in arrears as of the end of each month. The Management Fee is $1/12$ times a 1.50% annual rate times of the aggregate Invested Capital of each Limited Partner.

During the Reinvestment Period, Invested Capital will equal the aggregate Capital Contributions to the Fund.

During the Distribution Period, Invested Capital will be recalculated as of the end of each month, and will equal (a) the aggregate Capital Contributions to the Fund *minus* (b) the product of (1) distributions made to investors in the Fund and (2) the Adjustment Factor.

The Adjustment Factor is the ratio (expressed as a percentage not exceeding 100%) of (a) aggregate Invested Capital as of the end of the preceding month to (b) the Net Asset Value of the Fund as of the end of the preceding month.

The Adjustment Factor has the effect of reducing the base on which the Management Fee is calculated to reflect returns of capital to Limited Partners during the Distribution Period.

No Management Fee will apply after the end of the Distribution Period.

Management Fees (as well as the Fund's expenses) are paid from the proceeds of Capital Calls and/or of investments.

The following examples should not be considered a representation of future performance of the Fund; actual distributions to investors may be greater or less than those shown below.

Hypothetical 1

- Year 0: Investor A makes a Capital Commitment of \$100 million to the Fund, and a Capital Contribution of \$100 million in respect of such Capital Commitment on Day 1 of Year 0. Investor A is the only investor in the Fund.
- Year 1: The Fund does not dispose of any of its investments, and retains for reinvestment all distributions on its investments.
- Year 2: The Fund does not dispose of any of its investments, and retains for reinvestment all distributions on its investments.
- Year 3: On the last day of Year 3, the Fund receives \$65.8 million as distributions on its investments and cash proceeds from the disposition of certain of its investments. 100% of the \$65.8 million in cash proceeds is distributed to Investor A.
- Year 4: On the last day of Year 4, the Fund receives an additional \$65.8 million as distributions on its investments and cash proceeds from the disposition of certain of its investments. 100% of the \$65.8 million is distributed to Investor A (of which \$34.2 million represents the balance of Investor A's Capital Contributions to the Fund and \$31.6 million which in this example represents the complete satisfaction of the Hard Hurdle Return).
- Year 5: On the last day of Year 5, the Fund receives an additional \$65.8 million as distributions on its investments and cash proceeds from the disposition of certain of its investments. 80% of the \$65.8 million, or \$52.64 million, is distributed to Investor A, with the 20% balance, or \$13.16 million, allocated to the General Partner as Carried Interest.

Hypothetical 2

- Year 0: Investor A makes a Capital Commitment of \$100 million to the Fund, and a Capital Contribution of \$100 million in respect of such Capital Commitment on Day 1 of Year 0. Investor B makes a Capital Commitment of \$50 million to the Fund, and a Capital Contribution of \$50 million in respect of such Capital Commitment on Day 1 of Year 0. Investor A and Investor B are the only investors in the Fund.
- Year 1: The Fund does not dispose of any of its investments, and retains for reinvestment all distributions on its investments.
- Year 2: The Fund does not dispose of any of its investments, and retains for reinvestment all distributions on its investments.
- Year 3: On the last day of Year 3, the Fund receives \$98.7 million as distributions on its investments and cash proceeds from the disposition of certain of its investments. 100% of the \$98.7 is

distributed to Investor A and Investor B *pro rata* based on their respective Capital Contributions to the Fund (\$65.8 million is distributed to Investor A and \$32.9 million is distributed to Investor B).

Year 4: On the last day of Year 4, the Fund receives an additional \$98.7 million as distributions on its investments and cash proceeds from the disposition of certain of its investments. 100% of the \$98.7 million is distributed to Investor A and Investor B *pro rata* based on their respective Capital Contributions to the Fund (\$65.8 million is distributed to Investor A of which \$34.2 million represents the balance of Investor A's Capital Contributions to the Fund and \$31.6 million which in this example represents the complete satisfaction the Hard Hurdle Return with respect to Investor A; and \$32.9 million is distributed to Investor B of which \$17.1 million represents the balance of Investor B's Capital Contributions to the Fund and \$15.8 million which in this example represents the complete satisfaction the Hard Hurdle Return with respect to Investor B).

Year 5: On the last day of Year 5, the Fund receives an additional \$ 98.7 million as distributions on its investments and cash proceeds from the disposition of certain of its investments. 80% of the \$98.7 million, or \$78.96 million, is distributed to Investor A and Investor B *pro rata* based on their respective Capital Contributions to the Fund (\$52.64 million is distributed to Investor A and \$26.32 million is distributed to Investor B), with the 20% balance, or \$19.74 million, allocated to the General Partner as Carried Interest.

Item 20.2 Not Applicable

Item 20.3 Not Applicable

Item 20.4 Not Applicable

Item 20.5 Not Applicable

Item 20.5 Not Applicable

Item 20.6 Custodian

LaSalle Bank National Association, 540 West Madison Street, Chicago, IL 60661, is the custodian of the Fund's assets pursuant to a custodian services agreement, under which LaSalle, among other things: clears and settles all securities transactions, custody the Fund's assets, opens and maintains separate accounts in the Fund's name; makes cash payments from the accounts for purposes set forth in the agreement; holds securities in accounts; releases and delivers or exchanges securities owned by the Fund as set forth in the agreement; collects and receives for the account of the Fund all income, property, and similar items; settles purchased securities upon receipt.

Item 20.7 Legal Counsel, Independent Registered Public Accounting Firm, Administrator

Sidley Austin LLP, 787 Seventh Avenue, New York, New York 10019, acts as legal counsel to the Fund.

LaSalle Bank National Association also serves as the administrator to the Fund.

LaSalle assists the Fund with day-to-day administrative matters, provides the Fund with transaction services and financial and accounting services, furnishes the Fund with periodic and special

reports, statements, and other information, and acts as the Fund's registrar and transfer agent. The Fund pays customary fees and expenses to LaSalle.

PricewaterhouseCoopers LLP, 125 High Street, Boston, Massachusetts 02110, serves as the Independent Registered Public Accounting Firm for the Fund.

Item 20.8 Not Applicable

ITEM 21. – PORTFOLIO MANAGEMENT.

The Portfolio Manager

Compensation of the Portfolio Manager

Declaration's investment professionals are compensated under a common comprehensive program. Individual initiative and achievement are acknowledged and encouraged, but Declaration's compensation program is designed to recognize company-wide accomplishments. Declaration's policy on compensation is to pay salaries and incentives at or above the median for investment management firms in Boston and New York. In addition, employees are eligible to participate in a three-part Incentive Compensation Plan, which is comprised of the following:

- (i) Investment Performance Incentives: This is the largest component of the plan. For each account managed, this bonus pool represents a variable percentage of account revenue based upon short and long term absolute and competitive performance. All employees other than the President participate in this pool.
- (ii) Profitability Incentives: Certain managers and senior staff members are eligible for compensation based upon Declaration's financial performance. This pool is also adjusted up and down by asset performance as well.
- (iii) Senior Management Incentives: Certain senior officers have a non-voting share of the firm's profits. The payment of this incentive accumulates in a deferred compensation plan over a period of years.

Fund Ownership of the Portfolio Manager

The following table shows the dollar range of shares owned beneficially and of record by each member of the Fund's portfolio management team in the Fund, including investments by their immediate family members and amounts invested through retirement and deferred compensation plans. This information is provided as of October 16, 2008.

Name of Portfolio Manager	Dollar Range of Equity Securities in the Fund
James E. Shallcross	0

Portfolio Manager Conflicts of Interest

In addition to managing the assets of the Fund, the Fund's portfolio manager may have responsibility for managing other client accounts of Declaration. The tables below show, for the portfolio manager, the number and asset size of (i) SEC-registered investment companies (or series thereof) other than the Fund, (ii) pooled investment vehicles that are not registered investment companies, and (iii) other accounts (*e.g.*,

accounts managed for individuals or organizations) managed by the portfolio manager. The tables also show the number of performance-based fee accounts, as well as the total assets of the accounts for which the advisory fee is based on the performance of the account. This information is provided as of September 30, 2008.

Other SEC-Registered Investment Companies Managed

Name of Portfolio Manager	Number of Registered Investment Companies	Total Assets of Registered Investment Companies	Number of Investment Company Accounts with Performance-Based Fees	Total Assets of Performance-Based Fee Accounts
James E. Shallcross	8	\$3,275,000,000	0	N/A

Other Pooled Investment Vehicles Managed

Name of Portfolio Manager	Number of Pooled Investment Vehicles	Total Assets of Pooled Investment Vehicles	Number of Pooled Investment Vehicles with Performance-Based Fees	Total Assets of Performance-Based Fee Accounts
James E. Shallcross	1	\$39,000,000	1	\$39,000,000

Other Accounts Managed

Name of Portfolio Manager	Number of Other Accounts	Total Assets of Other Accounts	Number of Other Accounts with Performance-Based Fees	Total Assets of Performance-Based Fee Accounts
James E. Shallcross	5	\$1,214,000,000	1	\$50,000,000

ITEM 22 - BROKERAGE ALLOCATION AND OTHER PRACTICES.

LaSalle Bank National Association is the Fund's administrator and custodian. LaSalle clears and settles all securities transactions and also serves as the custodian of the Fund's assets. All custodied assets are held in the name of the Fund. Certain of the Fund's assets held by custodians are segregated from the custodians' own property, while other Fund assets held as collateral or margin may not be, and, accordingly, may not be recoverable in the event of the custodian's insolvency.

Declaration uses reasonable efforts to obtain the best net prices and execution for all orders placed with respect to the Fund, considering all circumstances that are relevant in its reasonable determination. Declaration is not obligated to select a broker or dealer solely on the basis of the rate of commission or the spread it offers. Subject to the objective of obtaining best prices and execution, Declaration may take into consideration the full range and quality of services furnished by brokers and dealers.

Declaration assumes no responsibility for the actions or omissions of any broker or dealer selected by Declaration in good faith.

ITEM 23. – TAX STATUS.

Information on the taxation of the Fund is incorporated by reference from the section titled “Taxes” (see item 10.4.) in the Fund’s Registration Statement on Form N-2.

It is expected that the Fund will be treated as a partnership for federal income tax purposes, and not as an association or publicly traded partnership taxable as a corporation.

ITEM 24. - FINANCIAL STATEMENTS.

Report of Independent Registered Public Accounting Firm

To the General Partner and Limited Partners of
DMR Mortgage Opportunity Fund LP

In our opinion, the accompanying statement of assets, liabilities and partners' capital presents fairly, in all material respects, the financial position of the DMR Mortgage Opportunity Fund LP (the “Fund”) at May 19, 2008, in conformity with accounting principles generally accepted in the United States of America. This financial statement is the responsibility of the Fund’s management; our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit of this financial statement in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Boston, Massachusetts
May 23, 2008

DMR Mortgage Opportunity Fund LP
Statement of Assets, Liabilities and Partners' Capital
May 19, 2008

Assets:	<u>Amount</u>
Cash	52,750,000
Total Assets	<u>52,750,000</u>
Liabilities and Partners' Capital	
Liabilities	-
Partners' Capital	
General Partner's Capital	25,000
Limited Partners' Capital	52,725,000
Total Partners' Capital	<u>52,750,000</u>
Total Liabilities and Partners' Capital	<u><u>52,750,000</u></u>

See notes to financial statement

Note 1 – Organization

DMR Mortgage Opportunity Fund LP (the “Fund”) is a recently organized Delaware limited partnership. The management of the Fund has registered the Fund under the Investment Company Act of 1940, as amended (the “1940 Act”), as a closed-end, non-diversified, management investment company.

Under the supervision of the Board of Directors, Declaration Management & Research LLC (“Declaration”), a Delaware limited liability company registered as an investment adviser under the Investment Advisers Act of 1940, as amended (the “Advisers Act”) serves as the Fund’s investment adviser. Declaration also serves as the Fund’s general partner.

The Fund’s investment objective is to provide investors with attractive returns through long biased opportunistic investing in stressed, distressed and other undervalued mortgage-backed securities and related fixed income assets. It is anticipated that the Fund’s returns (if any) will be captured through the cash flow generated by the securities it acquires at discounted prices and through capital appreciation.

Declaration will employ a “bottom up” approach to security selection, seeking to identify assets which may be acquired at prices below their intrinsic value. Declaration will acquire investments deliberately over a 12- to 24-month period, utilizing analysis at the loan level and modeling the structural characteristics of each transaction. Declaration has a value orientation in security selection, seeking a margin of safety or cushion between likely, estimated performance expectations and extreme loss outcomes. This value orientation is particularly applicable to the Fund, which has been formed to invest in an opportunity set characterized by material undervaluations of a number of credit instruments, and is based on practical experience that quantitative models and base case loss and prepayment assumptions do not fully describe risk. In determining a reasonable purchase price for assets, Declaration will seek an expected return profile which should hold up to a margin of slippage in its loss forecasts.

The Fund will not be diversified, but rather has been formed as a “special purpose vehicle” in an attempt to capitalize on mortgage credit market conditions that began in 2007 and are expected to prevail beyond the second quarter of 2008. The Fund seeks to produce consistent absolute returns by applying an asset-level bottom-up analysis combined with multiple stress scenario analysis to find value opportunities in mortgage credit markets. Declaration believes that there are numerous opportunities in the mortgage credit markets that can allow the Fund to benefit from favorable changes in prepayment speeds, default rates and structural step-downs.

The Fund intends to invest in debt securities that are sold at a discount, including non-investment grade and non-rated securities. These investments will consist primarily of residential mortgage-backed securities, commercial mortgage-backed securities, second lien loans and structured finance collateralized debt obligations, but also may include mortgage-related corporate credits and other mortgage-related investments. The Fund also may employ interest rate and credit derivatives for risk mitigation.

The Fund is a recently organized closed-end, non-diversified management investment company. Closed-end funds differ from open-end management investment companies (commonly known as mutual funds) in that investors in a closed-end fund do not have the right to redeem or withdraw their investments.

Note 2 – Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Fund's management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Federal Income Taxes

The Fund intends to operate so that it will be treated as a partnership for federal income tax purposes and not as an association or a "publicly traded partnership" taxable as a corporation. Accordingly, the Fund will not be subject to federal income tax, and each Limited Partner will be required to report on its own annual tax return such Limited Partner's share of the Fund's taxable income, gain, or loss.

No distributions will be made by the Fund to cover any taxes due on Limited Partners' investments in the Fund. Investors may not redeem capital from the Fund, and they must have other sources of capital available to them in order to pay such taxes.

Organization Expenses, Non Public Offering Costs and Other Expenses

The investment adviser of the Fund will pay all organizational and offering costs of the Fund. The Fund will pay its own operating costs, including trading, financing, insurance legal, accounting, auditing, reporting and filing costs, as well as the fees of the Fund's administrator and custodian. The Fund will also be responsible for the fees and expenses of the Fund's independent directors.

Note 3 – Partners' Capital

As of May 19, 47% of the Fund's partners' capital was held by one independent limited partner and 41% of such capital was held by subsidiaries of Manulife Financial Corporation, which also owns 100% of Declaration.

Each limited partner participates pro rata in the Fund's distributions in accordance with its fund percentage until such limited partner has received 100% of such limited partners' capital contributions. Then each limited partner is entitled to distributions up to a hard hurdle return of 8%, compounded semi-annually. Thereafter, 80% of the distributions will be made to such limited partner and 20% to Declaration.

Note 4 – Public Offering

On or around the end of the Draw Period, defined from the May 15th, 2008 through the earlier of the date of all Capital Commitments (defined in Note 5) have been drawn down and May 15, 2009, Declaration proposes and the Board intends to cause the Fund to register its limited partnership interests ("Interests") under the Securities Act of 1933, as amended (the "Securities Act"), and publicly offer up to \$50 million of Interests at Net Asset Value (plus any applicable sales charge) to certain "Eligible Public Offering Investors," unless at such time the Board determines that adequate investment opportunities for the Fund are no longer available. Each "Eligible Public Offering Investor" will be required to meet the qualifications specified in the Fund's Securities Act registration statement. Among other qualifications, each Eligible Public Offering Investor must be a "qualified client," as defined in Rule 205-3 of the

Advisers Act. The registration of the Fund under the 1940 Act and the registration of the Interests under the Securities Act are separate and distinct regulatory procedures.

Note 5 – Capital Commitments

Capital Commitments, defined as the amount of capital contributions which the General Partner and each Limited Partner agrees, in such General and Limited Partner's Subscription and Capital Commitment Agreement, to make to the Fund. As of May 19, 2008, Committed Capital was \$211,000,000.

Note 6 – Related Party Transactions

As discussed in the note above, Manulife Financial Corporation owns 100% of Declaration. The Fund will pay management fees in arrears as of the end of each month. The management fee will be 1/12 times a 1.50% annual rate times the aggregate invested capital of each limited partner. There are no special fee arrangements for the related party.

Note 7 – Uncertainty, Volatility of Valuations and Other General Risks

The prevailing asset-backed and mortgage credit market conditions which create the mispricings on which the Fund will seek to capitalize may also make it difficult to determine the realizable value of the Fund's portfolio. Although Declaration expects that third party valuations will be available for most of the Fund's investments, that availability may change and require a material portion of those investments to be valued based on "manager marks," "fair value adjustments," models or theoretical values in accordance with the Board-approved valuation procedures. Moreover, the market valuations provided by securities dealers may differ from the prices at which such dealers would be willing to trade. These differences could be material in relation to the Fund's financial statements taken as a whole. Although valuation of the Fund's investments will be in accordance with Board-approved procedures and subject to the Board's review, the currently disrupted market conditions of the asset-backed and mortgage credit markets in which the Fund will trade materially increases the uncertainty of valuations.

Among additional risks that prospective investors should note are the following: The Fund's portfolio will not be diversified; the Fund's strategy will focus on the credit markets. These markets have recently been subject to significant disruptions. The undiversified character of the Fund's portfolio can be expected to increase risk and volatility. The Fund's portfolio will primarily include distressed credit investments with respect to which the timing and amount of principal and interest payments are uncertain. The fair value of certain of the Fund's illiquid positions may be difficult to establish. The Fund's portfolio will have material exposure to interest-rate changes. The Fund may hold a number of investments which become involved in bankruptcy and insolvency proceedings. No redemptions may be made with respect to the Interests, and there will be no market for them.]

The Financial Statements appearing in the Fund's Semi-Annual Report for the period ended June 30, 2008 are incorporated by reference in this Statement of Additional Information. The Fund's Annual and Semi-Annual Reports are available upon request and free of charge by contacting Declaration Management & Research LLC, 1800 Tysons Boulevard, Suite 200, McLean, Virginia 22102, attention Lester Guillard; or by calling Declaration Management & Research LLC, attention Lester Guillard, at (703) 749-8283.

**PART C
OTHER INFORMATION**

Item 25. Financial Statements and Exhibits.

**Exhibit
Number**

- (1) Financial Statements:
Included in Part B.
- (2) Financial Statements
Exhibits:
- (a) (i) Certificate of Limited Partnership.*
 - (a) (ii) Second Amended and Restated Limited Partnership Agreement, dated as of September 22, 2008.
 - (b) Not applicable.
 - (c) Not applicable.
 - (d) Form of Subscription Agreement.
 - (e) Not applicable.
 - (f) Not applicable.
 - (g) Form of Amended and Restated Investment Advisory Agreement between Declaration and the Registrant.
 - (h) Form of Master Placement Agency Agreement.*
 - (i) Not applicable.
 - (j) (i) Form of Custodial Agreement between LaSalle and the Registrant.*
 - (k) (i) Form of Administrative Services Agreement between LaSalle and the Registrant.*
 - (l) Not applicable.
 - (m) Not applicable.
 - (n) Not applicable.
 - (o) Consent of Independent Registered Public Accounting Firm.*
 - (q) Not applicable.
 - (r) (i) Combined Code of Ethics of the Registrant and Adviser.*
 - (r) (ii) See (r)(i).
 - (r) (iii) Code of Ethics for Senior Officers of the Registrant.*

* Previously filed as an Exhibit to the Registrant's initial registration statement (Reg. Nos. 811-22203) on June 6, 2008.

Item 26. - Marketing Arrangements.

Not applicable.

Item 27. – Other Expenses of Issuance and Distribution.

Not applicable.

Item 28. – Persons Controlled By or Under Common Control.

See Item 19 included in Part B of this Registration Statement.

Item 29. – Number of Holders of Securities.

As of October 16, 2008, the Fund had the following number of record owners of Interests:

<u>Title of Class</u>	<u>Number of Record Holders</u>
Limited Partnership Interests	6

Item 30. - Indemnification.

A policy of insurance covering the Fund (in connection with its investment activities) and its Directors and officers (in connection with their management duties) has been obtained to insure such parties against liability and defense costs arising from claims alleging, among other things, error, neglect or breach of fiduciary duty. Article II, Section 2.8 of the Registrant’s Limited Partnership Agreement is as follows:

(a) The Fund shall indemnify, defend, and hold harmless each Declaration Party, the Directors and, as the General Partner may determine, the agents, advisors, and consultants of the Fund (each also an “Indemnified Party”), from and against any loss, cost, expense, liability, fees (including attorneys’ fees and expenses), and damages suffered or sustained by such Indemnified Party by reason of any acts or omissions, or alleged acts or omissions, arising out of the activities of an Indemnified Party, reasonably believed by such Indemnified Party to be on behalf of the Fund or in furtherance of the interests of the Fund, provided that those acts or omissions are not Finally Determined to constitute conduct for which such Indemnified Party would be subject to liability under the standard of liability set forth in Section 2.7.

(b) An Indemnified Party shall be entitled to receive advances from the Fund to cover the cost of defending any claim or action against such Indemnified Party; provided, that such Indemnified Party enters into a written agreement that all such advances shall be repaid to the Fund (without interest) if it is Finally Determined that such Indemnified Party is not entitled to indemnity under Section 2.8(a) and otherwise complies with the requirements of the 1940 Act.

(c) The rights of an Indemnified Party to indemnification shall survive the dissolution of the Fund and the death, withdrawal, declaration of legal incapacity, dissolution or Bankruptcy of such Indemnified Party.

Item 31. – Business and Other Connections of the Investment Adviser.

- a. Declaration Management & Research LLC, a registered investment adviser, serves as the investment adviser to other institutional and privately managed accounts.
- b. Business and other connections of the directors and officers of Declaration are set forth below.

Name and Current Position with Declaration	Business and Other Connections During the Past 2 Fiscal Years
Warren A. Thomson, Chairman and Director	John Hancock Life Insurance Company and affiliates, Boston, Massachusetts; Director; Executive Vice President
Ronald J. McHugh, Director	John Hancock Life Insurance Company; Boston, Massachusetts; Senior Vice President
John M. DeCiccio, Director	Hancock Natural Resource Group, Inc.; Boston, Massachusetts; Director Independence Investments LLC; Boston, Massachusetts; Director (Directorship ended March 2006)
Janis L. Largesse, Director	John Hancock Life Insurance Company, Boston, Massachusetts; Assistant Vice President
Bond Griffin, CFA, Vice President	Hyperion Brookfield Asset Management; Assistant Vice President (2003 to 2006)

Item 32. – Location of Accounts and Records.

The accounts and records of the Fund are located at 1800 Tysons Boulevard, Suite 200, McLean, Virginia 22102.

Item 33. – Management Services.

Not applicable.

Item 34. - Undertakings.

Not applicable.

SIGNATURES

Pursuant to the Investment Company Act of 1940, as amended, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the County of Fairfax and the Commonwealth of Virginia on 27th of October, 2008.

DMR MORTGAGE OPPORTUNITY FUND LP

By: /s/ William J. Callan, Jr. _____

Name: William J. Callan, Jr.

Title: President

**INTERESTS HAVE INITIALLY BEEN PRIVATELY OFFERED AND
CANNOT BE TRANSFERRED WITHOUT THE CONSENT OF THE
GENERAL PARTNER AND COMPLIANCE WITH APPLICABLE
SECURITIES LAW EXEMPTIONS.**

DMR MORTGAGE OPPORTUNITY FUND LP

**SECOND AMENDED AND RESTATED
LIMITED PARTNERSHIP AGREEMENT**

Dated as of September 22, 2008

**DECLARATION MANAGEMENT & RESEARCH LLC
General Partner**

DMR MORTGAGE OPPORTUNITY FUND LP

SECOND AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT

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**SECOND AMENDED AND RESTATED
LIMITED PARTNERSHIP AGREEMENT**
of
DMR MORTGAGE OPPORTUNITY FUND LP
(the “Fund”)

This Second Amended and Restated Limited Partnership Agreement (this “Agreement”) dated as of September 22, 2008 supersedes the Amended and Restated Limited Partnership Agreement of the Fund dated as of May 15, 2008, which shall be of no further force or effect, and provides for the governance of the Fund as follows:

ARTICLE I

ORGANIZATION

Section 1.1 Name: General Partner.

The Fund shall do business under the name of “**DMR Mortgage Opportunity Fund LP.**” Declaration Management & Research LLC (“Declaration”) shall act as the general partner of the Fund (in such capacity, the “General Partner”); provided that the board of directors of the Fund (the “Board”) has overall responsibility to oversee the business operations of the Fund on behalf of the limited partners (the “Limited Partners”).

Section 1.2 Purposes.

(a) The Fund shall register as a closed-end, non-diversified management investment company (a “CNMIC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). Under the direction of Declaration, acting in its capacity as investment adviser to the Fund pursuant to the Investment Advisory Agreement (in such capacity, the “Investment Adviser”) and subject to the supervision of the Directors, the Fund may engage, directly and indirectly, in all aspects of investing and trading as permissible for a CNMIC. The Fund’s investment objective is to provide investors with attractive returns through long biased opportunistic investing in stressed, distressed and other undervalued mortgage-backed securities and related fixed-income assets. Within the scope of this purpose and the applicable CNMIC restrictions, there is no limitation imposed by this Agreement on the markets or instruments in which the Fund may trade, the market sectors of the issuers of securities in which the Fund may invest or trade or the investment or trading strategies that the Fund may apply.

(b) The Fund shall operate as a CNMIC in accordance with the 1940 Act and subject to the fundamental policies and investment restrictions described in the Fund’s Form N-2, as filed with the SEC and as set forth in the Investment

Advisory Agreement, as may be amended from time to time (the "Investment Guidelines").

(c) Subject to **Sections 1.2(a)** and **(b)**, the Fund may trade and invest in all manner of Investment Assets to the fullest extent permitted for a CNMIC.

(d) The Fund may not incur any indebtedness for borrowed money.

(e) The Fund may designate from time to time persons to act as signatories for the Fund, including persons authorized to execute and deliver any filings with the SEC or applicable federal or state regulatory authorities or self-regulatory organizations.

(f) The Administrator/Custodian shall serve as the Fund's administrator and custodian. The Administrator/Custodian shall clear and settle all securities transactions for the Fund and shall also serve as the custodian of the Fund's assets, assist the Fund in its day-to-day administration and act as the Fund's registrar and transfer agent.

Section 1.3 Principal Office; Registered Office; Registered Agent.

The principal office of the Fund shall be at 1800 Tysons Boulevard, Suite 200, McLean, Virginia 22102. The registered office of the Fund shall be at such location, and its registered agent for service of process shall be such entity, as is set forth in the Certificate of Formation. Such principal office and/or registered agent may be changed by the General Partner subject to the approval of the Board and notice to all Limited Partners.

Section 1.4 Term.

The term of the Fund shall continue until the Fund is dissolved and wound up as provided in **Section 7.1**.

Section 1.5 Limited Partners.

(a) The Limited Partners, in their capacity as such, shall have only the powers specifically enumerated in this Agreement and shall not have any control over the business or operations of the Fund, any power to bind the Fund or any right to remove or replace the General Partner.

(b) The General Partner has delegated authority over the management and operations of the Fund to the Board, as set forth herein.

(c) 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 Act.

Section 1.6 Definitions.

For the purposes of this Agreement, the following terms — and, as appropriate, derivatives of such terms — shall have the meanings set forth below, unless the context otherwise requires:

“Act” shall mean the Delaware Revised Uniform Limited Partnership Act.

“Administrator/Custodian” shall mean LaSalle Bank National Association or such other Person chosen from time to time by the General Partner, subject to the approval of the Board, as the administrator and custodian of the Fund.

“Advisers Act” shall mean the Investment Advisers Act of 1940.

“Affiliate” of a Person shall mean a Person controlling, controlled by or under common control with, that Person, either directly or indirectly through one or more intermediaries.

“Available Capital Commitment” shall mean a Limited Partner’s Capital Commitment *less* all Capital Contributions made by such Limited Partner.

“Available Capital” shall mean cash held by the Fund in excess of any Reserves.

“Bankruptcy” shall mean, with respect to any Person, an adjudication that such Person is bankrupt or insolvent, such Person’s admission of such Person’s inability to pay such Person’s debts as they mature, its making a general assignment for the benefit of creditors, its filing a petition in bankruptcy or a petition for relief under any section of the United States Bankruptcy Code or any other bankruptcy or insolvency Law, or the filing against such Person of any such petition which is not discharged within 60 days after such filing.

“Board” means the board of the directors of the Fund who have been delegated the authority over the Fund’s management and operations as set forth in this Agreement.

“Business Day” shall mean any day other than a day on which commercial banks in New York City are authorized or required to be closed.

“Capital Account” shall mean, with respect to each Partner, the capital account established and maintained on the books of the Fund in accordance with this Agreement.

“Capital Call” shall mean a notice given by the General Partner to each Limited Partner to make a Capital Contribution pursuant to such Limited Partner’s Capital Commitment. Capital Calls must be made at least ten Business Days prior to the due date for the applicable Capital Contribution.

“Capital Commitment” shall mean the amount of Capital Contributions which each Limited Partner agrees, in such Limited Partner’s Subscription and Capital Commitment Agreement, to make to the Fund.

“Capital Contribution” shall mean, with respect to each Limited Partner, the cash contributed to the Fund in response to Capital Calls by such Limited Partner as set forth in the books and records of the Fund.

“Capital Termination.” See **Section 3.5**.

“Carried Interest” See **Section 6.2**.

“Chairman” means the chairman of the Board, as elected from time to time by action of the Board.

“Closing Dates” shall mean May 15, 2008 and a date in September 2008 to be determined by the General Partner.

“CNMIC” See **Section 1.2(a)**.

“Code” shall mean the Internal Revenue Code of 1986.

“Declaration” See **Section 1.1**.

“Declaration Client” shall mean each Person (including Affiliates of Declaration) whose investments or trading activities are directed by Declaration. Limited Partners shall not be deemed to be Declaration Clients solely by virtue of owning an Interest.

“Declaration Party” shall mean (a) Declaration, (b) any Affiliate of Declaration, and (c) any owner, director, officer, portfolio manager, employee or any Person acting in a similar capacity of any of the foregoing. For the avoidance of doubt, no Declaration Client or Limited Partner shall, solely in its capacity as such, be deemed to be a Declaration Party.

“Director”; “Directors” means a director of the Fund that was appointed in accordance with this Agreement (and includes William P. Callan, Jr. as the initial Director); references to the Directors shall, as appropriate, refer to the Board acting in such capacity. At least a majority of the Directors must be Independent Directors.

“Distribution” means a distribution made by the Fund in accordance with the provisions of this Agreement. Distributions may be made by the General Partner, subject to the ultimate authority of the Board, at any time and from time to time after the Reinvestment Period.

“Distribution Date” means the scheduled date that the General Partner, subject to the ultimate authority of the Board, determines that any Distribution is to be made by the Fund.

“Distribution Period” shall mean the period from the end of the Reinvestment Period through May 15, 2013, subject to extension at the option of the General Partner under the supervision of the Board, through May 15, 2014.

“Distribution Proceeds” means the amount due to a Limited Partner in respect of a Distribution.

“Draw Period” shall mean the period from the first Closing Date through the earlier of (a) the date that all Capital Commitments have been drawn down and (b) May 15, 2009, except as otherwise provided in Section 3.5(e).

“Drawdown” shall mean making a Capital Contribution pursuant to a Capital Call.

“Drawdown Date” shall mean the due date for a Capital Contribution.

“Eligible Investor” shall mean: (A) a Person (1) that meets the qualifications specified in the Subscription and Capital Commitment Agreement, including that such Person be an institutional “accredited investor” as defined in Regulation D under the Securities Act and a “qualified client” as defined in Rule 205-3 under the Advisers Act and (2) the ownership of an Interest by which will not have an adverse effect on the Fund or other Limited Partners, including the occurrence of an Impermissible Event; and (B) any other Person as determined by the General Partner; provided that no Person which has not executed and delivered a Subscription and Capital Commitment Agreement accepted by the Fund shall be considered an Eligible Investor whether or not otherwise so qualified, unless the General Partner otherwise determines with the approval of the Board.

“ERISA” shall mean the Employee Retirement Income Security Act of 1974.

“Exchange Act” shall mean the Securities Exchange Act of 1934.

“Expenses” shall mean the expenses of operating the Fund.

“Finally Determined” shall mean found by a court or arbitral tribunal of competent jurisdiction upon entry of a final, non-appealable judgment.

“Fiscal Year” shall mean the calendar year, unless the Board elects a different Fiscal Year.

“Form N-2” means the Fund’s Registration Statement on Form N-2 filed with the SEC, as may be amended from time to time.

“Fund” shall mean DMR Mortgage Opportunity Fund LP, the Delaware limited partnership whose governance is provided for by this Agreement.

“Fund Percentage” shall mean, with respect to each Limited Partner and each Valuation Date, the fraction the numerator of which is the Net Asset Value of such Limited Partner’s Capital Account as of such Valuation Date and the denominator of which is the Net Asset Value of the Fund as of such Valuation Date, in each case determined without reduction for any Carried Interest not yet allocated. The sum of all Fund Percentages determined as of any Valuation Date shall equal 100%. Notwithstanding the foregoing, for voting purposes, a Limited Partner may waive its right to vote all or part of its Fund Percentage as set forth in **Section 11.8**.

“GAAP” shall mean generally accepted accounting standards as in effect in the United States.

“General Partner” See **Section 1.1**.

“Hard Hurdle Return” shall mean an 8% annualized return on all Capital Contributions from the date each such Capital Contribution is made through each Distribution Date, compounded semi-annually.

“IAA End Date” See **Section 2.11(c)**.

“Impermissible Event” shall mean any event which would cause: (A) the Fund not to qualify for an exemption from regulation under the Commodity Exchange Act (if the Fund is then relying on such exemption); (B) a violation under any Law or any contractual provision to which the Fund or any of its property is subject; or (C) a Limited Partner to breach any of such Limited Partner’s representations, warranties or covenants set forth in this Agreement or in such Limited Partner’s Subscription and Capital Commitment Agreement.

“Independent Director” means a Director who is not an “interested person” within the meaning of Section 2(a)(19) of the 1940 Act.

“In-Kind Distribution Notice” See **Section 6.4(b)**.

“Interest” shall mean, with respect to any Limited Partner, the interest in the Fund owned by that Limited Partner, including all rights and obligations provided under this Agreement and, to the extent not superseded by this Agreement, under the Act.

“Investment Adviser.” See **Section 1.2(a)**.

“Investment Advisory Agreement” shall mean the investment advisory agreement between the Investment Adviser and the Fund.

“Investment Assets” means all assets, instruments, contracts, rights, undertakings and other property which may be acquired, traded, held, borrowed, lent, invested in or sold (including short sales), including securities, loans, loan participations, futures contracts, puts and calls, swaps and other derivatives; provided that the Investment Assets in which the Fund trades or invests shall be consistent with the Investment Guidelines.

“Investment Guidelines.” See **Section 1.2.**

“Key Person Event” shall mean the occurrence of (a) James E. Shallcross, and (b) any two of William P. Callan, Jr., Peter M. Farley and Bond Griffin, becoming permanently unavailable to manage the Fund’s portfolio by reason of their death, disability or cessation of employment by Declaration. For this purpose, “disability” means the physical or mental inability of a person to discharge his or her obligations to Declaration, whether in its capacity as General Partner or as Investment Adviser to the Fund, for 90 consecutive calendar days (calendar days to be considered consecutive unless separated by at least 10 Business Days during which such person did discharge his or her obligations to Declaration with respect to the Fund).

“Law” shall mean any law, regulation (proposed, temporary or final), administrative rule or procedure, self-regulatory organization rule or interpretation, or exchange rule or procedure binding upon, or which the Directors reasonably determine may be binding upon (in each case, as applicable in light of the context), any Limited Partner, the Fund, any Declaration Party or any Affiliate of any of the foregoing or to which any of their property is subject.

“LIBOR” means the London Inter-Bank offered rate for U.S. dollars, as determined by an internationally recognized financial service chosen by Declaration from time to time.

“Limited Partner” shall mean a limited partner of the Fund.

“Liquidator” See **Section 7.1(c).**

“Management Fee” shall mean the management fee payable by the Fund to the Investment Adviser pursuant to the Investment Advisory Agreement.

“Net Asset Value” See **Section 4.3.**

“Net Asset Value Carried Interest.” See **Section 2.11(c).**

“1940 Act” shall mean the Investment Company Act of 1940.

“Partners” shall mean the General Partner and the Limited Partners.

“Person” shall mean any individual, partnership, limited liability company, joint venture, corporation, trust, unincorporated organization, government (or any agency or political subdivision thereof) or other entity, whether or not having legal personality.

“Private Placement Memorandum” shall mean the Fund’s Confidential Private Placement Memorandum pursuant to which Interests are offered to Eligible Investors, as may be supplemented from time to time.

“Public Offering” shall mean the public offering of up to \$50 million of Interests, which the General Partner and the Board currently intend to cause the Fund to make on or around the

end of the Draw Period, unless at such time the Board determines that adequate investment opportunities for the Fund are no longer available. The Public Offering will be made with the subscribers in such Public Offering acquiring Interests (which may be unitized for such purposes) in accordance with the Fund's Net Asset Value (plus any applicable sales charge).

“Reinvestment Period” shall mean the period from the first Closing Date through the earlier of: (a) the date, if any, on which the General Partner determines that adequate investment opportunities for the Fund are no longer available and (b) May 15, 2010, except as otherwise provided in Section 3.5(d), (e) or (f).

“Reserves” shall mean reserves (funded or unfunded) established by the General Partner (subject to the ultimate authority of the Board) to reflect contingent, uncertain, established or other potential liabilities and/or for any other reason. For the avoidance of doubt, any amounts paid out to a Limited Partner shall in all cases be reduced by any Reserves allocable to such Limited Partner.

“SEC” means the U.S. Securities and Exchange Commission.

“Securities Act” shall mean the Securities Act of 1933.

“Subscription and Capital Commitment Agreement” shall mean a written agreement or instrument in form and substance acceptable to the Directors, whereby each Limited Partner subscribes for or otherwise acquires an Interest and agrees to a Capital Commitment.

“Tax Items” shall mean items of income, gain, loss, deduction and credit determined for income tax reporting purposes.

“Transfer,” “Transferee,” “Transferor” shall mean any transfer or assignment of an Interest (or the Person making or receiving such transfer or assignment, as the case may be), including any dealing of whatsoever nature affecting the legal and/or beneficial interest (whether vested or contingent) in any Interest including sales, donative transactions, testamentary transactions, granting a charge, pledge or other security or permitting the same to arise on or over any Interest.

“Treasury Regulations” shall mean the regulations (final, proposed and/or temporary) of the Department of the Treasury and/or Internal Revenue Service promulgated under or in respect of the Code.

“Valuation Date” shall mean (a) such date as the General Partner may determine, generally at least quarterly as of the last Business Day of each quarter, for reporting purposes; and (b) the date of any Capital Contribution.

Section 1.7 Rules of Interpretation.

- (a) References to sections shall be to sections of this Agreement unless otherwise specified.
- (b) “May” shall be construed as permissive.
- (c) A “month” or a “quarter” means a calendar month or quarter (as the case may be).
- (d) A “notice” means written notice unless otherwise stated.
- (e) “Shall” shall be construed as imperative.
- (f) The masculine includes the feminine and neuter respectively.
- (g) Writing includes typewriting, printing, lithography, photography and other modes of representing or reproducing words in a legible and non-transitory form.
- (h) Any reference to a Law, agreement or a document shall be deemed also to refer to any amendment, supplement or replacement thereof.
- (i) Whenever this Agreement refers to a number of days, such number shall refer to calendar days unless such reference specifies Business Days.
- (j) The term “and/or” is used herein to mean both “and” as well as “or.” The use of “and/or” in certain contexts in no respects qualifies or modifies the use of the terms “and” or “or” in others. “Or” shall not be interpreted to be exclusive, and “and” shall not be interpreted to require the conjunctive — in each case, unless the context otherwise requires.
- (k) Article and section headings herein have been inserted for convenience of reference only, are not a part of this Agreement and shall not be used in construing this Agreement.
- (l) The terms “include” and “including” and words of similar import are to be construed as non-exclusive (so that, by way of example and for the avoidance of doubt, “including” shall mean “including without limitation”).
- (m) Unless the context of this Agreement otherwise requires (i) words using singular or plural number also include the plural or singular number, respectively, (ii) the terms “hereof,” herein,” “hereby” and derivative or similar words refer to the entire Agreement, (iii) the masculine gender shall include the feminine and neuter, (iv) any reference to a Law, agreement or a document shall be deemed to also refer to any amendment, supplement or replacement thereof, and (v) whenever this Agreement refers to a number of days, such number shall refer

to calendar days unless such reference specifies Business Days.

(n) Terms defined in this Agreement by reference to any other agreement, document or instrument shall have the meanings assigned to them in such agreement, document or instrument whether or not such agreement, document or instrument is then in effect.

(o) No provision of this Agreement shall be construed in favor of or against any Person by reason of the extent to which any such Person, its Affiliates or their respective employees or counsel participated in the drafting thereof.

ARTICLE II

MANAGEMENT

Section 2.1 Authority of the General Partner and the Directors.

(a) Under the Act, the General Partner shall have full and complete charge of all affairs of the Fund. The management and control of the Fund's business and operations shall rest exclusively with the General Partner to the extent not delegated to the Directors.

(b) 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 Fund and to carry out their oversight obligations with respect to the Fund required under the 1940 Act, state law, and any other applicable laws or regulations. The Directors are hereby granted the right, power and authority to do, on behalf of the Fund, all things which in their sole judgment are necessary or appropriate to manage the Fund's affairs and fulfill the purposes of the Fund. Rights and powers delegated to the Directors include the authority as Directors to oversee and to establish policies regarding the management, conduct and operation of the Fund's business, and to do all things necessary and proper as Directors to carry out the objective and business of the Fund, including the power to engage an investment adviser to provide advice and management and to remove such an investment adviser, 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 Fund 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 Fund as are customarily vested in each director who is not an "interested person" (as that term is defined in Section 2(a)(19) the 1940 Act) of a CNMIC registered under the 1940 Act. During any period in which the Fund has no Directors, the General Partner shall manage and control the Fund. Each Director will be the agent of the

Fund but will not, for any purpose, be a general partner of the Fund. Notwithstanding the delegation described in this **Section 2.1(b)**, the General Partner will not cease to be the Fund's general partner and will continue to be liable as such and in no event will a Director be considered a general partner of the Fund 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 Fund in accordance with **Section 2.10** of this Agreement and make Capital Commitments and own an Interest, in which case the Director will also become a Limited Partner.

Section 2.2 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 Fund 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 adviser engaged pursuant to **Section 2.1(b)** of this Agreement or any other Person under the terms of any agreement between the Fund and such investment adviser 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 Fund:

- (i) to call and conduct meetings of Partners at the Fund's principal office or elsewhere as it may determine, and to assist the Directors in calling and conducting meetings of the Directors;
- (ii) to admit Limited Partners;
- (iii) as directed by the Directors, to commence, defend and conclude any action, suit, investigation or other proceeding that pertains to the Fund or any assets of the Fund; and
- (iv) to execute, amend, supplement, acknowledge and deliver any and all contracts, agreements or other instructions necessary for the performance of the General Partner's functions;
- (v) as directed by the Directors, to arrange for the purchase of any insurance covering the potential liabilities of the Fund or relating to the performance of the Directors and any investment adviser engaged pursuant to **Section 2.1(a)** of this Agreement or any of their principals, partners, directors, officers, members, employees and agents.

Section 2.3 Actions by the Board.

- (a) Unless provided otherwise in this Agreement, the Board shall 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) Meetings of the Directors may be called by the General Partner, the Chairman 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 Fund who will have the same powers and duties on behalf of the Fund 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 Fund by resolution of the Directors specifying their titles or functions.

Section 2.4 Meetings of Partners.

(a) (i) 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 action of the Directors or by Partners holding at least a majority of the total number of votes eligible to be cast by all Partners (or, with respect to any such meeting called to consider the termination or continuance of the Investment Advisory Agreement, at least 10% of such vote as determined in accordance with **Section 2.11(b)**), 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 shall 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 shall 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 at least a majority of the total number of votes eligible to be cast by all Partners (or, with respect to any such meeting called to consider the termination or continuance of the Investment Advisory Agreement, at least a majority of the total number of votes eligible to be cast by all Partners as determined in accordance with **Section 2.11(b)**) as of the record date shall 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 and the Limited Partners in the manner described above in this **Section 2.4(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 2.10(c)** of this Agreement or elected pursuant to the requirement of **Section 2.10(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 at least a majority of the total number of votes eligible to be cast by all Partners (or, with respect to any such meeting called to consider the termination or continuance of the Investment Advisory Agreement, at least a majority of the total number of votes eligible to be cast by all Partners as determined in accordance with **Section 2.11(b)**).

(ii) The General Partner shall provide, within a reasonable period of time, to any Limited Partner that so requests such information as is reasonably necessary for such Limited Partner to contact other Limited Partners for purposes of initiating a meeting of Partners to consider the termination or continuance of the Investment Advisory Agreement pursuant to **Section 2.4(a)(ii)**. Notwithstanding anything to the contrary contained herein, the General Partner shall not unreasonably limit or restrict, or otherwise in any respect attempt to hinder or interfere with, a Limited Partner's rights to vote with respect the termination or continuance of the Investment Advisory Agreement.

(b) Subject to **Sections 2.11** and **11.8**, each Partner shall be entitled to cast at any meeting of Partners or pursuant to written consent a number of votes equivalent to the Partner's Fund Percentage as of the record date for the meeting or the date of the written consent. The General Partner shall 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 shall be entitled to cast at the meeting, and shall maintain for each record date a list setting out the name of each Partner and the number of votes that each Partner shall 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 Fund 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 Fund 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 other percentage as may be required under this Agreement to approve the action. Any solicitation of any proxy from a Partner shall be done in accordance with the 1940 Act and the Exchange Act.

Section 2.5 Other Activities.

(a) Without in any respect limiting the effect of **Section 3.5**, none of the General Partner, any Declaration Party or any Director shall be required to devote full time to the affairs of the Fund, but each shall devote such time as each believes may reasonably be required to perform such Person's obligations under this Agreement and under the 1940 Act.

(b) In addition to serving as General Partner and Investment Adviser, Declaration may also manage certain institutional managed accounts or parallel investment vehicles which will trade *pari passu* with the Fund.

(c) Declaration Parties may have investments of their own, and a Declaration Party may be acting as an operator, administrator, trading advisor or investment manager for others. The Declaration Parties may be or become associated with other investment entities and act as a general partner to, and engage in investment advisement for others. Except to the extent necessary to perform the General Partner's obligations hereunder, nothing herein shall be deemed to limit or restrict the right of any Declaration Party to engage in, or to devote time and attention to the management of any other business, whether of a similar or dissimilar nature, or to render services of any kind to any other Person. For the avoidance of doubt, Declaration Parties may engage in all activities and transactions contemplated by or described in the Private Placement Memorandum.

(d) (i) The Declaration Parties (i) may engage in or possess an interest, direct or indirect, in any business venture of any nature or description (including other investment funds) for their own

respective accounts, independently or with others, including any business, industry or activity in which the Fund may be interested in investing or may also have investments, and (ii) may do so without any obligation to report the same to the Fund or to afford the Fund any opportunity to participate therein. The Fund shall not have any rights in or to any such independent venture or investment in any of the revenues or profits derived therefrom.

(ii) Among Declaration Clients, including the Fund, Declaration as the Investment Adviser shall allocate assets to each Declaration Client account in light of its investment objectives and guidelines, cash position and other factors. It is Declaration's policy (i) to allocate investment opportunities to the extent practicable to the accounts of Declaration Clients over time in a manner that Declaration believes is fair and equitable and (ii) not to intentionally favor or disfavor any Declaration Client.

(e) To the extent that at law or in equity the Directors or any Declaration Party have duties (including fiduciary duties) and liabilities relating to the Fund or to any other Partner or other Person bound by this Agreement, any such Person acting under this Agreement shall not be liable to the Fund or to any other Partner or other Person bound by this Agreement for the good faith reliance of the foregoing 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.

(f) From time to time, a Declaration Client may invest in, or withdraw an investment from, an investment in which the Fund is invested, is withdrawing its investment from, or is not invested. In addition, a Declaration Party may recommend that the Fund purchase or sell an investment that is being sold or purchased by another Declaration Client or otherwise give advice or take action with regard to other Declaration Clients that differs from the advice given with respect, or action taken with regard, to the Fund.

(g) Each Limited Partner specifically agrees and consents to the conflicts of interest to which the Declaration Parties may be subject in operating the Fund (as described in the Private Placement Memorandum). Each Limited Partner covenants, to the fullest extent permitted by law (including the 1940 Act and the Advisers Act), not to object to or bring any proceedings against any of the foregoing relating to any such conflicts of interest, provided that the relevant Declaration Parties comply with the standard of liability set forth in **Section 2.7** of this Agreement; and provided further that nothing herein shall be construed as waiving any of the Limited Partner's rights under any federal or state securities law.

Section 2.6 No Borrowings Permitted.

The Fund will not borrow money for any purpose.

Section 2.7 Declaration Parties' Liabilities.

(a) No Declaration Party or Director shall be personally liable for the return or payment of all or any portion of the capital of or profits allocable to any Limited Partner, it being expressly agreed that any return of capital or payment of profits made pursuant to this Agreement shall be made solely from the assets of the Fund (which shall not include any right of contribution from any Declaration Party).

(b) No Declaration Party or Director shall have any liability to the Fund, any Limited Partner or any former Limited Partner for: (i) any act performed, or the omission to perform any act, within the scope of the power and authority conferred on the General Partner by this Agreement and/or by the Act, except by reason of acts or omissions of a Declaration Party Finally Determined to constitute fraud, willful misfeasance, bad faith, gross negligence or reckless disregard; (ii) the termination of the Fund and this Agreement pursuant to the terms hereof; (iii) the performance by a Declaration Party of, or the omission by a Declaration Party to perform, any act which such Declaration Party reasonably believed to be consistent with the advice of attorneys, accountants or other professional advisers to the Fund or to such Declaration Party with respect to matters relating to the Fund; (iv) the conduct of any Person selected or engaged and monitored by such Declaration Party with due care; (v) any tax imposed on the Fund or the Limited Partners in any jurisdiction, or any costs incurred in respect of a tax audit or similar procedure; or (vi) any tax position taken by the General Partner in good faith and which was not clearly contrary to Law when taken.

(c) No Independent Director shall have any liability to the Fund, the General Partner, any Limited Partner or any former Limited Partner for conduct Finally Determined to have constituted a violation of Law, provided that such Independent Director reasonably believed such conduct to be lawful and in the interest of the Fund at the time of such conduct.

(d) 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 Fund'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.

Section 2.8 Declaration Parties' Indemnification.

(a) The Fund shall indemnify, defend, and hold harmless each Declaration Party, the Directors and, as the General Partner may determine, the agents, advisors, and

consultants of the Fund (each also an “Indemnified Party”), from and against any loss, cost, expense, liability, fees (including attorneys’ fees and expenses), and damages suffered or sustained by such Indemnified Party by reason of any acts or omissions, or alleged acts or omissions, arising out of the activities of an Indemnified Party, reasonably believed by such Indemnified Party to be on behalf of the Fund or in furtherance of the interests of the Fund, provided that those acts or omissions are not Finally Determined to constitute conduct for which such Indemnified Party would be subject to liability under the standard of liability set forth in **Section 2.7**.

(b) An Indemnified Party shall be entitled to receive advances from the Fund to cover the cost of defending any claim or action against such Indemnified Party; provided, that such Indemnified Party enters into a written agreement that all such advances shall be repaid to the Fund (without interest) if it is Finally Determined that such Indemnified Party is not entitled to indemnity under **Section 2.8(a)** and otherwise complies with the requirements of the 1940 Act.

(c) The rights of an Indemnified Party to indemnification shall survive the dissolution of the Fund and the death, withdrawal, declaration of legal incapacity, dissolution or Bankruptcy of such Indemnified Party.

Section 2.9 Limited Liability of Limited Partners.

(a) No Limited Partner (including Declaration) shall be personally liable for or subject to any liability or obligation whatsoever of the Fund. Irrespective of whether one or more Limited Partners may have deficit Capital Accounts, no Limited Partner(s) shall have any obligation to make any Capital Contribution with respect to such deficit(s), and no such deficit(s) shall be considered a debt owed by any such Limited Partner(s) to the Fund or to any other Limited Partner(s) for any purpose whatsoever.

(b) In no event shall any person other than the General Partner be authorized to make any Capital Calls, and the Capital Commitments shall not be considered to constitute an asset of the Fund.

Section 2.10 Directors.

(a) The number of Directors at the date of this Agreement is fixed at not more than seven Directors and no fewer than two. After the Closing Date, the number of Directors shall be fixed from time to time by the Directors then in office, which number may be greater, or lesser, than seven, 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 shall serve to effect the removal of any Director. Each Partner approves the delegation by the General Partner to the Directors, in accordance with **Section 2.1** 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 2.10(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 2.10(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. An Independent Director shall 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 shall 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 Fund 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 Fund, 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 Fund shall be dissolved in accordance with **Section 7.1** of this Agreement and the assets of the Fund shall be liquidated and distributed in accordance with **Section 7.1** of this Agreement.

(d) The status of a Director shall 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 2.10(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 majority vote (as defined in the 1940 Act), including by written consent, of the Limited Partners.

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

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

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

Section 2.11 The Investment Advisory Agreement; Removal and Replacement of the General Partner.

(a) Each Limited Partner specifically agrees and consents to the terms of the Investment Advisory Agreement.

(b) Declaration, other Declaration Parties and Declaration Clients (other than the Fund) hereby agree to waive their respective voting rights regarding termination or continuance of the Investment Advisory Agreement and agree that their Interests in the Fund will be voted in identical proportion as the other Limited Partners in respect of such matters submitted for a vote of Limited Partners.

(c) In the event that notice has been given pursuant to Section 10(a) of the Investment Advisory Agreement that the Investment Advisory Agreement shall be terminated or expire:

(i) (A) The General Partner shall undertake procedures to determine the Net Asset Value of the Fund as well as of each Partner's Capital Account as of the date that the Investment Advisory Agreement is scheduled to terminate or expire (the "IAA End Date") — such determination to be made as contemplated by **Section 4.3**.

(B) The General Partner and designees of the Board shall prepare "issuer tender offer" materials under the 1940 Act and Rule 13e-4 under the Exchange Act in anticipation of the in-kind tender offer to be made to all Partners following the removal of the General Partner on the IAA End Date (see below).

(C) Declaration, as the Investment Adviser, shall continue to manage the Fund's portfolio under the Investment Advisory Agreement giving due consideration to (among other things) its impending removal as investment adviser to and general partner of the Fund, payment to Declaration as General Partner of the Carried Interest (as well as the balance of the General Partner Capital Account) in cash as of the IAA End Date, and the in-kind tender offer to be made to all Partners following such removal (see below).

(ii) (A) As of the IAA End Date, the General Partner shall be removed as the Fund's general partner (except to the extent that it may be necessary for Declaration to remain in such capacity in order to prevent dissolution of the Fund so as to

ensure that the procedures set forth below in this **Section 2.11** may be duly completed).

(B) A Net Asset Value Carried Interest shall be calculated with respect to each Limited Partner's Capital Account as of the IAA End Date. Such Net Asset Value Carried Interest shall equal 20% of the excess of (1) the Net Asset Value of such Capital Account as of the IAA End Date, prior to deduction of the Net Asset Value Carried Interest being calculated, plus the aggregate distributions previously made with respect to such Capital Account, *minus* (2) the aggregate Capital Contributions made to such Capital Account, *plus* the Hard Hurdle Return on such Capital Contributions through the IAA End Date.

(C) The Net Asset Value Carried Interest determined in Section **2.11(c)(ii)(B)**, as well as the Net Asset Value of the General Partner Capital Account, shall be paid out by the Fund to the General Partner in cash on the IAA End Date.

(iii) (A) The Board shall cause the Fund to offer — within 25 days after the date that notice is given of the termination or expiration of the Investment Advisory Agreement as contemplated by the introductory sentence to this **Section 2.11(c)** — to repurchase all Interests held by Limited Partners in exchange for their respective Fund Percentages of the Fund's Investment Assets, such repurchase to be effected pursuant to an "issuer tender offer" conducted in accordance with the requirements of the Exchange Act and the 1940 Act.

(B) Pursuant to the Fund's issuer tender offer contemplated by Section **2.11(c)(iii)(A)**, each Limited Partner shall have 25 days from the commencement of such issuer tender offer to elect to participate, but only with respect to the entirety (not any portion thereof) of such Limited Partner's Interests.

(C) Upon conclusion of the foregoing issuer tender offer, those Limited Partners which elected to participate shall have distributions in kind (and partially in-cash if entirely in-kind distributions are infeasible) made to them equal to their respective Fund Percentages of the Fund's Investment Assets, whereupon their Interests, Fund Percentages and

Capital Contributions shall be cancelled and they shall no longer be Limited Partners.

(iv) Following the issuer tender offer contemplated by **Section 2.11(c)(iii)**,

the Limited Partners which have not accepted the issuer tender offer may, within 90 days of the IAA End

(A) Date, elect a replacement General Partner, such election to require a majority (as defined in the 1940 Act) of the number of votes eligible to be cast by such Limited Partners; and

The Fund may enter into an investment advisory agreement with a successor investment adviser upon the affirmative vote of (A) a majority of the Fund's Directors and a majority of the members of the Fund's Directors who are not parties to this Agreement or interested persons (as defined in the 1940 Act) of any

(B) party to this Agreement, or of any entity regularly furnishing investment advisory services with respect to the Fund pursuant to an agreement with any party to this Agreement, cast in person at a meeting called for the purpose of voting on such approval; and (B) the holders of a majority (as defined in the 1940 Act) of the number of votes eligible to be cast by such Limited Partners;

provided, that: if no replacement General Partner is appointed within 90 days following the IAA End Date, or if, prior to the expiration of such 90-day period Limited Partners holding a majority (as defined in the 1940 Act) of the number of votes eligible to be cast by such Limited Partners vote to dissolve the Fund, the Fund shall be dissolved in such manner as the Board may determine.

ARTICLE III

CAPITAL COMMITMENTS; CAPITAL CALLS; CAPITAL CONTRIBUTIONS

Section 3.1 Admission of Limited Partners; Capital Commitments; Capital Contributions.

(a) Prior to the Public Offering, the minimum Capital Commitment that may be made by any Limited Partner shall be \$5 million, subject to waiver by the General Partner in its discretion.

(b) There is no minimum or maximum amount of Capital Commitments which the Fund may accept, either prior to or in the course of the Public Offering.

(c) The General Partner may accept or reject Capital Commitments, in whole or in part, in its discretion.

(d) Capital Commitments may be accepted as of each Closing Date. Limited Partners making Capital Commitments as of the second Closing Date shall make a Capital Contribution to the Fund in accordance with the current Net Asset Value of the Fund as determined by the General Partner, pursuant to Board-approved procedures and subject to the Board's review. Such Capital Contributions shall equal the aggregate Net Asset Value of the Fund as of such date *multiplied* by the fraction the numerator of which is each such Limited Partner's Capital Commitment and the denominator of which is the aggregate of all Partners' Capital Commitments.

(e) Each Limited Partner agrees to make Capital Contributions during the Draw Period as provided in **Sections 3.3 and 3.4**.

(f) At the end of the Reinvestment Period, each Limited Partner agrees to make a Capital Contribution to establish a reserve to pay future Management Fees and Expenses as provided in **Section 3.4(c)**.

(g) Prior to admission to the Fund, each new Limited Partner shall enter into a Subscription and Capital Commitment Agreement whereby such Limited Partner agrees to be bound by and subject to all of the terms and conditions of this Agreement.

(h) The amount of each Limited Partner's Capital Commitment shall be set forth in such Limited Partner's Subscription and Capital Commitment Agreement.

Section 3.2 Capital Commitments by Declaration.

(a) Declaration, as General Partner, shall make a Capital Commitment.

(b) Declaration, as a Limited Partner, may make a Capital Commitment (in addition to the Capital Commitment made by Declaration as General Partner, pursuant to **Section 3.2(a)**).

(c) For the avoidance of doubt, the Capital Commitments of Declaration pursuant to **Sections 3.2(a) and (b)** shall not be subject to the \$5 million minimum contemplated by **Section 3.1(a)**.

Section 3.3 Drawdown Procedures.

(a) Each Limited Partner shall make Capital Contributions in such amounts and at such times as the General Partner shall specify in Capital Calls delivered from time to time to such Limited Partner.

(b) Subject to one or more Limited Partners electing Capital Termination, Capital Calls will be made by the General Partner pro rata in accordance with each Limited Partner's Available Capital Commitment; provided, however, that the Capital Calls of Limited Partners making Capital Commitments as of the second Closing Date shall include such additional amounts so that, immediately following the relevant Drawdown Date, all Limited Partners shall have each made Capital Contributions pro rata in accordance with their respective Capital Commitments.

(c) Each Capital Call shall specify the Drawdown Date on which the related Capital Contribution is due, which will be at least ten (10) Business Days following the delivery of the Capital Call. Normally, a Capital Call will require that Capital Contributions be made in immediately available funds as of the first Business Day of a calendar month.

(d) In no event shall a Limited Partner be required to make a Capital Contribution in response to a Capital Call in an amount in excess of such Limited Partner's Available Capital Commitment at the time such Capital Call is received.

(e) Each Capital Contribution made by a Partner shall be added to the current Net Asset Value of such Partner's Interest.

Section 3.4 Permitted Purposes for Capital Calls.

(a) Capital Calls may be made during the Draw Period to pay expenses and Management Fees.

(b) After the end of the Draw Period, the Limited Partners will be released from any further obligation with respect to their Available Capital Commitments, except that the General Partner may continue to issue Capital Calls to: (i) cover Expenses (including Management Fees) and any other obligations of the Fund; and (ii) complete investments by the Fund in transactions which were in process as of the end of the Draw Period; provided that such transactions are completed within ninety (90) days of the end of the Draw Period (or such longer period as the General Partner may reasonably determine).

(c) At the end of the Reinvestment Period, the General Partner may make a Capital Call (to the extent of any remaining Available Capital Commitments) in order to establish a reserve to pay costs incurred by the Fund during the Distribution Period. The

General Partner may also pay Fund expenses from the Fund's current income, principal payments and sale proceeds.

Section 3.5 Key Person Event.

(a) The General Partner shall deliver a written notice to all Limited Partners within ten (10) Business Days after a Key Person Event.

(b) If a Key Person Event occurs during the Draw Period, each Limited Partner shall have the right, exercisable by written notice to the Fund received no later than ten (10) Business Days after the General Partner's delivery of such Key Person Event notice, to discontinue making any additional Capital Contributions effective immediately (a "Capital Termination").

(c) No Capital Calls may be made during the twenty (20) Business Day period following a Key Person Event.

(d) If a Key Person Event occurs during the Draw Period, and fewer than all Limited Partners have elected a Capital Termination, then:

(i) the Draw Period shall continue and the Fund shall continue to make Capital Calls on those Limited Partners that have not elected a Capital Termination;

(ii) the Reinvestment Period shall terminate thirty (30) calendar days after the end of the Draw Period; and

(iii) Limited Partners which have elected Capital Termination shall continue to be responsible for Management Fees and expenses and to participate in new Investment Assets acquired by the Fund, although the respective Fund Percentages of such Limited Partners shall decline as Limited Partners which have not elected Capital Termination continue to make Capital Contributions while the Limited Partners which elected Capital Termination do not.

(e) If a Key Person Event occurs during the Draw Period, and all Limited Partners have elected Capital Termination, then the Draw Period and the Reinvestment Period shall terminate on the date twenty (20) Business Days after the Key Person Event.

(f) If a Key Person Event occurs after the end of the Draw Period but before the end of the Reinvestment Period, the Reinvestment Period shall terminate immediately.

ARTICLE IV

CAPITAL ACCOUNTS; ALLOCATIONS

Section 4.1 Capital Accounts.

There shall be established for each Partner on the books and records of the Fund a capital account (a “Capital Account”), which shall initially be zero. The Capital Account of each Partner shall be:

- (a) credited with any Capital Contributions made by such Partner;
- (b) credited with any allocations of income or gain of the Fund to such Partner;
- (c) debited by the amount of cash (or the fair market value of other property, less any liabilities that such Partner is deemed to assume or take pursuant to Section 752 of the Code) distributed by the Fund to such Partner; and
- (d) debited by any allocations of deduction or loss of the Fund to such Partner.

Section 4.2 Financial Allocations.

At the end of each Fiscal Year, after adjusting Capital Accounts for all Capital Contributions and distributions during such Fiscal Year pursuant to **Section 4.1**, all income, gain, deduction and loss of the Fund shall be allocated among the Partners’ Capital Accounts in a manner such that the Capital Account of each Partner, immediately after giving effect to such allocation, is, as close as possible, equal (proportionately) to the amount of the distributions that would be made to such Partner during such Fiscal Year pursuant to **Article VII** if (i) the Fund were dissolved and terminated; (ii) its affairs were wound up and each Fund asset was sold for cash equal to its book value (except that any Fund asset that was sold or otherwise disposed of in such Fiscal Year shall be treated as if sold or disposed of for an amount of cash equal to the sum of (x) the amount of any net cash proceeds actually received by the Fund in connection with such disposition and (y) the fair market value of any property actually received by the Fund in connection with such disposition); (iii) all Fund liabilities were satisfied (limited with respect to each nonrecourse liability to the book value of the assets securing such liability); and (iv) the net assets of the Fund were distributed in accordance with **Article VII** to the Partners immediately after giving effect to such allocation. The General Partner may, in its discretion, make such other assumptions (whether or not consistent with the above assumptions) as it deems necessary or appropriate in order to effectuate the intended economic arrangement of the Partners. All Limited Partners — irrespective of the Closing Date as of which they invest — shall participate *pro rata* in the Fund’s investments in accordance with their respective Fund Percentages.

Section 4.3 Determination of Net Asset Value.

(a) Net Asset Value shall be calculated as of each Valuation Date. Net Asset Value shall be calculated taking into account all assets and liabilities of the Fund, including administration, insurance, legal, audit and other professional fees and expenses. The calculation of the Fund's Net Asset Value has been delegated by the Board to the Administrator/Custodian and the General Partner, subject to the ultimate supervision of the Board. The Board shall approve procedures pursuant to which the Fund will determine the fair value of its investments. The objective of such procedures shall be compliance with GAAP, as well as with Financial Accounting Standards Board, Statement of Financial Accounting Standard No. 157, "*Fair Value Measurements*."

(b) In general, the Net Asset Value of the Fund will be determined according to the following principles.

- (i) Loans will be valued at their fair value. In many cases, cost less any impairment reserves may be considered the best approximation of fair value.

Securities which are listed and traded predominantly on one or more securities exchanges will be valued at the price, as disseminated by quotation services, on the principal exchange on which such securities are traded at a pre-determined time on each selected Valuation Date as appropriate for each type of security. If no sale occurred on the Valuation Date, such securities will be valued at the mean of the closing bid and ask prices.
- (ii) Securities that trade predominantly in the over-the-counter market will be generally valued at the mean of their closing bid and ask prices as obtained from or confirmed by dealers or pricing services.
- (iii) Over-the-counter derivatives will be generally valued: (A) at the mean of their closing bid and ask prices as obtained from or confirmed by dealers; (B) based on models that are generally recognized by the industry with the inputs to the models being obtained from or confirmed by brokers or quotation reporting systems; or (C) by pricing services.
- (iv) Investment assets initially valued in currencies other than U.S. Dollars will be converted to U.S. Dollars at exchange rates quoted by established market makers at a time on each Valuation Date that is generally accepted by the industry as appropriate for each different currency.
- (v)

(vi) Futures and options on futures which are listed on one or more exchanges will be valued at the closing price on the principal exchange on each Valuation Date. If a future or option on a future is still trading, the Administrator/Custodian will value it at the average of its bid and ask price on the principal exchange at a predetermined time on each Valuation Date.

(vii) All options which are listed on one or more exchanges will be valued at the mean of their closing bid and ask prices on the principal exchange. If an option is still trading, the Administrator/Custodian will value the option at the average of its bid and ask price on the principal exchange at a predetermined time on each Valuation Date.

(viii) Non-U.S. income and withholding taxes imposed on the Fund are treated as an expense as such taxes accrue.

(ix) The Administrator/Custodian and/or the General Partner may determine to use a different value for any asset than would be assigned pursuant to **paragraphs (i)–(viii)** above, if the General Partner determines, in good faith, that to do so would better reflect fair value.

(c) Net Asset Value shall be reduced by any Net Asset Value Carried Interest that would have been paid had the Valuation Date been the IAA End Date as contemplated by **Section 2.11(c)(ii)**.

(d) The General Partner may determine in good faith in accordance with procedures approved by the Board, the price of a particular security, which valuation is subject to ratification by the Board at its next regular meeting.

(e) The Board may postpone the determination of Net Asset Value in the event that it, in consultation with the General Partner, determines that it is not reasonably practicable to value a material portion of the Fund's investments. The General Partner will give prompt notice of any such postponement to all Limited Partners and will use reasonable efforts to bring any such postponement to an end as soon as practicable.

ARTICLE V

TAX ALLOCATIONS

Section 5.1 Tax Allocations.

(a) For U.S. Federal, state and local income tax purposes, each item of income, gain, loss, deduction and credit of the Fund shall be allocated among the Partners as nearly as possible in the same manner as the corresponding item of income, deduction, gain or loss is allocated for Capital Account purposes pursuant to **Article IV** and **Section 6.3**. It is intended that the Capital Accounts will be maintained at all times in accordance with Section 704 of the Code and applicable Treasury Regulations thereunder, and that the provisions hereof relating to the Capital Accounts be interpreted in a manner consistent therewith. The General Partner, under the ultimate supervision of the Board, shall be authorized to make appropriate adjustments to the allocations of items to comply with Section 704 of the Code or applicable Treasury Regulations thereunder, including a “qualified income offset”; provided that no such change shall have an adverse effect upon the amount distributable to any Partner hereunder.

(b) Notwithstanding anything else contained in this **Article V**, if any Partner has a deficit Capital Account for any fiscal period as a result of any adjustment of the type described in Treasury Regulation Section 1.704-1(b)(2)(ii)(d)(4) through (6), then the Fund’s income and gain will be specially allocated to such Partner in an amount and manner sufficient to eliminate such deficit as quickly as possible. Any special allocation of items of income or gain pursuant to this paragraph shall be taken into account in computing subsequent allocations pursuant to this **Article V** so that the cumulative net amount of all items allocated to each Partner shall, to the extent possible, be equal to the amount that would have been allocated to such Partner if there had never been any allocation pursuant to this paragraph.

Section 5.2 Consistent Tax Reporting.

Except as otherwise agreed to in writing by the General Partner, all Partners shall report all Tax Items (including the character and timing of such Tax Items) related to the Fund in a manner consistent with the manner in which such Tax Items are reported by the Fund.

Section 5.3 “Tax Matters Partner”

(a) For purposes of Section 6231(a)(7) of the Code, or any corresponding provision of any future Law, the “Tax Matters Partner” of the Fund shall be the General Partner.

(b) The General Partner shall also have the power to make or revoke all tax elections and determinations for the Fund and to take any and all actions necessary or permitted under the Code, the Treasury Regulations promulgated thereunder, or other

applicable Law to effect those elections, determinations and allocations. All elections, determinations and allocations by the General Partner shall be binding upon all Limited Partners and their respective successors, assigns and heirs.

(c) The General Partner shall have comparable authority in respect of any state, local or foreign tax, tax law or tax claim relating to the Fund and the Limited Partners as the General Partner has under the Code as the Tax Matters Partner.

(d) The cost of any examination or audit of, and of any adjustment to, a Limited Partner's tax return shall be borne solely by the affected Limited Partner.

(e) The General Partner shall be entitled, subject to the approval of the Directors, to be reimbursed for all expenses incurred by the General Partner in performing its services as Tax Matters Partner, as well as to be indemnified for liabilities and losses incurred in performing such services, subject to the standard set forth in **Section 2.8**.

Section 5.4 Determinations by the General Partner Pursuant to Article V.

All matters concerning the determination and allocation among the Partners of the amounts to be determined and allocated pursuant to this **Article V**, including any accounting procedures applicable with respect to tax items, shall be determined by the General Partner, under the supervision of the Board, unless specifically and expressly otherwise provided for by the provisions of this Agreement or as required by Law. Any such determinations and allocations shall be final and binding on all of the Partners.

ARTICLE VI

DISTRIBUTIONS

Section 6.1 Reinvestment.

During the Reinvestment Period, the Fund shall reinvest the proceeds of its investments and shall not be obligated to distribute any amounts (including Available Capital) to the Limited Partners. The General Partner does not intend to cause the Fund to make any Distributions during the Reinvestment Period.

Section 6.2 Distributions.

(a) After the Reinvestment Period (*i.e.*, both during and after the Distribution Period), the Fund shall distribute Available Capital as soon as reasonably practicable after receipt, subject to **Sections 6.2(e)** and **(f)**.

(b) Distributions of Available Capital both during and after the Distribution Period shall be allocated among the Limited Partners *pro rata* in accordance with the Limited Partners' respective Fund Percentages. Available Capital allocated under this **Section 6.2(b)** to a Limited Partner shall be distributed between such Limited Partner and the General Partner, in the following order of priority:

(i) *first*, 100% to such Limited Partner until such Limited Partner has received 100% of such Limited Partner's Capital Contributions (irrespective of whether such Capital Contributions were used to make investments, pay Management Fees and expenses or any other purpose);

(ii) *second*, 100% to such Limited Partner, until such Limited Partner has received the Hard Hurdle Return;
and

(iii) *third*, any balance, (a) 80% to such Limited Partner and (b) 20% to the General Partner (the amounts distributed to Declaration under this clause (iii) being referred to as the "Carried Interest").

(c) Distributions to Declaration with respect to its Capital Contributions as General Partner made as a result of its Capital Commitment under **Section 3.2(a)** shall be made 100% to the General Partner, without regard to **Sections 6.2(b)(ii)** and **(iii)**. Distributions to Declaration as a Limited Partner shall be made in the same manner as to all other Limited Partners.

(d) The Carried Interest shall be first allocated and then distributed by the Fund to Declaration as an allocable share of the Fund's gain, not as a performance fee paid to a third party.

(e) No Distributions shall be made by the Fund to cover any taxes due on Limited Partners' investments in the Fund.

(f) During any Fiscal Year, the Fund generally shall make no more than one distribution representing "long-term capital gains," as defined in the Code, in order to comply with Rule 19b-1 under the 1940 Act. However, the Fund may make more than one distribution in a Fiscal Year representing a "return of capital."

(g) Notwithstanding the foregoing provisions of this **Section 6.2**, the Fund may retain sufficient funds to ensure that there is Available Capital to pay the ongoing expenses of the Fund.

Section 6.3 Withholding and Income Taxes.

(a) Allocation of Withholding and Income Taxes. Any withholding or income taxes imposed by any jurisdiction on distributions hereunder or related items of income, gain, loss or deduction of the Fund, or incurred directly or indirectly by the Fund

with respect to its interest in any Investment Asset, shall be allocated to each Limited Partner *pro rata* in accordance with its Capital Contributions attributable to the Investment Asset giving rise to such distributions, or related items of income, gain, loss or deduction; provided, however, that any increase or decrease in such taxes resulting from the identity, nationality, residence or status of a Limited Partner will be specially allocated to that Limited Partner.

(b) Calculation of Distributions Before Withholding and Income Taxes. The amount of any distribution to the Limited Partners pursuant to **Section 6.2**, and the amount of any item of Fund income, gain, loss or deduction allocable to the Limited Partners, shall be determined (for purposes of the Fund's accounting and without limiting the General Partner's authority to make payments under **Section 6.3(c)** or a Limited Partner's liability under **Section 6.3(d)**) without regard to any withholding or income taxes (*i.e.*, as if the Fund had distributed or allocated, as the case may be, such amount or items of income, gain, loss or deduction, without diminution by the amount of such withholding or income taxes).

(c) Payment of Withholding and Income Taxes. The General Partner shall withhold from amounts distributable to the Limited Partners or otherwise pay over to the appropriate taxing authorities amounts of withholding or income tax required to be so withheld or paid over. The General Partner shall use reasonable efforts to obtain a receipt with respect to all such withholding or income taxes paid and to forward to each Limited Partner a copy of such receipt. Any amounts so withheld shall be deemed to have been distributed to the applicable Limited Partners.

(d) Liability for Withholding and Income Taxes. Except as otherwise set forth in **Section 11.16**, each Limited Partner agrees to indemnify and hold harmless the Fund and the General Partner from and against any liability with respect to its allocable share of any withholding or income taxes as determined under **Section 6.3(a)**. If the Fund is required to pay over any withholding or income taxes as provided in **Section 6.3(c)** with respect to a Limited Partner as to whom there are insufficient distributable amounts to pay such Limited Partner's allocable share of such withholding or income taxes, the General Partner shall promptly notify such Limited Partner of the amount of withholding or income taxes due from such Limited Partner (*i.e.*, the amount by which the Limited Partner's allocable share of such withholding or income taxes exceeds the amount otherwise distributable to such Limited Partner) and the date (the "Due Date") such taxes are required to be paid by the Fund to the relevant taxing authorities. Such Limited Partner shall pay to the Fund its allocable share of such taxes no later than the later of (i) two Business Days before the Due Date of the relevant withholding or income tax or (ii) ten Business Days after notice was sent to the Limited Partner as described above. If the Limited Partner fails to pay its allocable share of the withholding or income taxes by the date described in the preceding sentence (the "Payment Date"), (i) such amount shall bear interest from the Payment Date until the date actually paid at a rate equal to the lesser of (a) the greater of 10% or one-month LIBOR plus 4% and (b) the

maximum lawful rate of interest, compounded annually, (ii) the Fund shall be entitled to collect such sum from amounts otherwise distributable to such Limited Partner pursuant to **Section 6.2** and (iii) the Fund may exercise any and all rights and remedies to collect such sum from such Limited Partner that a creditor would have to collect a debt from a debtor under applicable law. Any payment made by a Limited Partner to the Fund pursuant to this **Section 6.3(d)** shall not constitute a Capital Contribution.

Section 6.4 Form and Manner of Distributions.

(a) The Fund will use reasonable best efforts to make all Distributions in cash and to have distributed the proceeds of the Fund's entire portfolio by the end of the Distribution Period. Subject to the foregoing, the Board has the right to cause Distributions to be made in-kind to the Limited Partners. Distributions in kind shall be made according to **Section 6.2**. The Carried Interest (if any) with respect to any distribution in kind shall be made in-kind to Declaration (except as specified otherwise in **Section 2.11(c)(ii)(C)**).

(b) The Fund shall not make any in-kind distribution of Investment Assets to any Limited Partner (pursuant to **Section 2.11**, this **Section 6.4** or **Section 7.1**) unless the General Partner shall have delivered a written notice generally describing such Investment Assets (an "In-Kind Distribution Notice") to such Limited Partner at least ten (10) Business Days prior to the date of such Distribution.

(c) If, within five (5) Business Days after delivery to it of an In-Kind Distribution Notice, such Limited Partner instructs Declaration to liquidate the Investment Assets described therein, Declaration (acting in its own capacity and not as General Partner or Investment Adviser) shall use commercially reasonable efforts on behalf of such Limited Partner to promptly liquidate such Investment Assets for maximum net cash proceeds.

(d) With respect to this **Section 6.4**, each such Limited Partner and Declaration acknowledges and agrees that: (i) any liquidation of Investment Assets shall be at such Limited Partner's sole risk and expense; (ii) the manner of such liquidation shall be at Declaration's sole discretion, provided that any sale of such Investment Assets to any Declaration Party or Declaration Client shall require such Limited Partner's prior written consent; (iii) Declaration makes no representation as to the time required to fully liquidate such Investment Assets; (iv) the net cash proceeds of such liquidation may be nominal or substantially lower than the value that may be realized were such Limited Partner to retain such Investment Assets; (v) no compensation shall be payable to Declaration with respect to its discharge of its duties under **Section 6.4(c)**; (vi) the net cash proceeds of such liquidation shall not constitute Available Capital; and (vii) Declaration shall have no duties under **Section 6.4(c)** or (d) on or after the IAA End Date.

Section 6.5 Loans.

The General Partner shall use reasonable efforts to give written notice to all Limited Partners at least thirty (30) days before the Fund or any of its representatives negotiates the terms of, or structures a new loan, or any modification to an existing loan that constitutes a “significant modification” under Treasury Regulation 1.1001-3 or for Virginia tax purposes. For the avoidance of doubt, the preceding sentence shall not be construed to require the Fund to provide written notice to the Limited Partners before the Fund engages in customary due diligence communications that would be reasonably necessary for a secondary market investor to make a reasonably informed decision to purchase a loan for its own account.

Section 6.6 Transfers.

(a) Any Interest or portion of any Interest held by a Limited Partner may be transferred only if the Board, or the General Partner as its delegate, consents to such Transfer. Such consent will be granted if (i) such Transfer is to an Eligible Investor and the Transfer is permitted under applicable securities law restrictions, and (ii) such Transfer (1) is made at death, including from an estate or testamentary trust; (2) is between members of a family (as defined in section 267(c)(4) of the Code); (3) is by a Limited Partner in one or more transactions within a 30-day period in which Interests in the Fund representing in the aggregate more than two percent of the total interests in the Fund’s capital or profits are transferred by such Limited Partner; (4) is to a trust of which the Transferor is the sole owner (within the meaning of section 671 of the Code); (5) is one in which the tax basis of the Interest in the hands of the Transferee is determined, in whole or in part, by reference to its tax basis in the hands of the Transferor Limited Partner (e.g., certain Transfers to affiliates, gifts and contributions to family entities); (6) involves the issuance of Interests by the Fund in exchange for cash, property or services; (7) is a distribution from a qualified retirement plan or an individual retirement account; (8) would not result in more than 2 percent of the total interests in the Fund’s capital or profits having been transferred during the Fund’s taxable year during which such Transfer would occur, without taking into account any Transfers described in clauses (1) through (7) above; or (9) is made after the General Partner receives a written opinion of counsel to the effect that the proposed Transfer will not cause the Fund to be a publicly traded partnership taxable as a corporation under section 7704 of the Code.

(b) Any permitted Transferee will be entitled to the allocations and distributions allocable to the Interest or portion of an Interest so acquired and to Transfer the Interest or portion of an Interest 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.

(c) If a Limited Partner Transfers an Interest or portion of an Interest with the approval of the Board or the General Partner as its delegate, the Board, or the General Partner as its delegate, shall promptly take all necessary actions so that each Transferee is

admitted to the Fund 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 as well as of a Subscription and Capital Commitment Agreement. Each Limited Partner and transferee agrees to pay all expenses, including attorneys' and accountants' fees, incurred by the Fund in connection with any Transfer. In connection with any request to Transfer an Interest or portion of an Interest, the Fund 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 its entire Interest as a Limited Partner, it will not cease to be a Limited Partner unless and until the transferee is admitted to the Fund as a substituted Limited Partner in accordance with this **Section 6.5**.

- (d) Any transfer, pledge or assignment in violation of this **Section 6.5** shall be null and void *ab initio*.

ARTICLE VII

DISSOLUTION

Section 7.1 Post-Distribution Period; Dissolution.

(a) Any Investment Assets remaining in the Fund's portfolio after the Distribution Period shall be held by the Fund until liquidated or, following notice, distributed to the Partners in kind. If held until liquidation, the Fund will disburse the current income and principal payments generated by such investments as received, except that the Fund may retain sufficient funds in order to ensure that there is Available Capital to pay the ongoing Expenses of the Fund. For the avoidance of doubt, if any Investment Assets remain in the Fund after the Distribution Period, (i) as provided in the Investment Advisory Agreement, no Management Fee shall be paid after the Distribution Period, and (ii) distributions of Available Capital after the Distribution Period will be made according to **Section 6.2**, such that the Carried Interest with respect to any Investment Assets remaining in the Fund after the Distribution Period shall be allocated to the General Partner at the time that any distribution (whether in cash or in-kind) is made with respect to such Investment Assets.

- (b) The Fund shall be dissolved only upon the occurrence of one of the following events:

(i) the withdrawal, Bankruptcy, or dissolution of the last remaining General Partner, unless the business of the Fund is continued within 90 days following the occurrence of such event by the vote or written consent of a majority (as defined in the 1940 Act) of the Fund Percentages;

(ii) upon the recommendation of the General Partner and the affirmative vote to dissolve the Fund by a majority of the Directors (including the vote of a majority of the Independent Directors); or

(iii) upon the failure of Partners to approve successor Directors at a meeting called by the General Partner in accordance with **Section 2.10(c)** of this Agreement when no Director remains to continue the business of the Fund.

(c) (i) Upon dissolution of the Fund for any reason, the Fund shall continue in existence for the purpose of winding up its affairs, and the assets of the Fund shall be liquidated by the General Partner.

(ii) If the General Partner is unable or unwilling to act, the property and business of the Fund shall be liquidated by such other Person elected by the vote or consent, by any of the methods provided in **Section 11.5**, of a majority (as defined in the 1940 Act) of the Fund Percentages (the General Partner or such other Person presiding over the dissolution and liquidation of the Fund being referred to in this **Article VII** as the “Liquidator”). The Liquidator shall be entitled to reasonable compensation for its services in winding up the business of the Fund and liquidating its assets and shall be indemnified for expenses and losses incurred by it in performing such services, subject to the standard of care set forth in **Section 2.8**.

(d) The Liquidator may postpone notice of the liquidation or proposed liquidation of the Fund to Limited Partners and/or third parties until such time as the Liquidator determines that doing so would not adversely affect the Fund or any Limited Partner.

(e) Dissolution of the Fund shall be conducted in accordance with the 1940 Act and Delaware law.

(f) Any distributions that would otherwise be made to a Limited Partner shall be retained by the Fund (for distribution to the Limited Partners) to the extent of any amounts which the Liquidator estimates are or shall be owed by such Limited Partner to the Fund or to any third party.

(g) As soon as the Liquidator deems reasonably practicable after the dissolution of the Fund, all income, gain, deduction and loss realized by the Fund since the last allocation of such items pursuant to **Section 4.2** shall be allocated to the Partners in accordance with **Section 4.2**, and upon liquidation of the Fund, distributions to the Partners shall be made as set forth in **Article VI**, after provision for creditors in the order and priority provided by Law as well as for Reserves.

(h) Upon the dissolution of the Fund, neither the name of the Fund nor its good-will, if any, shall be considered to be an asset of the Fund, such name and its

derivatives to be the sole property of one or more Declaration Parties, as provided in **Section 11.10**. No value shall be placed on the Fund name or good-will for the purpose of liquidation and Distribution or for any other purpose during the continuation of the Fund.

(i) All distributions shall be subject to any reserves that the Liquidator may establish.

(j) Upon dissolution of the Fund, no Limited Partner shall have any obligation to make any Capital Contribution with respect to any deficit Capital Account balance, and no such deficit balance shall be considered a debt owed by any such Limited Partner to the Fund or to any other Limited Partner for any purpose whatsoever.

ARTICLE VIII

EXPENSES; MANAGEMENT FEE

Section 8.1 Fund Expenses.

(a) The organizational costs of the Fund shall be paid by the General Partner.

(b) The costs of the Public Offering will be paid from its proceeds or by the General Partner (and for the avoidance of doubt, not by deduction from the Capital Account of any Limited Partners which were Limited Partners prior to the Public Offering).

(c) The Fund will compensate each Independent Director for his or her services rendered in connection with the Fund as may be agreed to by the Independent Directors, and as described in the Private Placement Memorandum. In addition, the Fund will reimburse the Directors for reasonable out-of-pocket expenses incurred by them in performing their duties with respect to the Fund, including the following:

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

(ii) any other expenses as may be approved from time to time by the Directors, other than those required to be borne by an investment adviser or the General Partner.

(d) The Fund shall bear all expenses incurred in engaging in the activities of the Fund as contemplated hereby, all indemnification expenses referred to in **Section 2.8**, and all expenses of any nature related to the Fund's operations and business (including any expenses related to investing or trading). The operating costs paid by the Fund could

be significant and may include trading, financing, insurance, legal, accounting, auditing, reporting and filing costs, as well as the customary fees and expenses of the Fund's Administrator/Custodian, as well as any extraordinary expenses.

(e) The Fund will also bear its brokerage commissions and other transaction fees in connection with the acquisition and disposition of its positions, as well as administrative and custodian fees for the Fund's assets.

(f) The Fund shall not bear any of the internal operating costs of Declaration (e.g., salaries, bonuses or office rent).

(g) Except as otherwise set forth in this Agreement, all Expenses borne by the Fund (including the Management Fee) are paid from Available Capital.

Section 8.2 Management Fee.

The Fund shall pay Declaration the Management Fee set forth in the Investment Advisory Agreement.

ARTICLE IX

BROKERAGE ARRANGEMENTS

Section 9.1 Brokerage Arrangements.

The Fund shall maintain brokerage and custody arrangements with the Administrator/Custodian, subject to the approval of the Board. The Administrator/Custodian shall clear and settle all securities transactions and shall also serve as the custodian of the Fund's assets. All custodied assets shall be held in the name of the Fund. Certain of the Fund's Investment Assets held by custodians shall be segregated from the custodians' own property, while other Fund Investment Assets held as collateral or margin shall not be (and, accordingly, may not be) recoverable in the event of the custodian's insolvency).

ARTICLE X

BOOKS OF ACCOUNT; REPORTS

Section 10.1 Books of Account.

(a) The General Partner (or the Administrator/Custodian as its delegate) shall keep the Fund's books of account at its principal place of business (or at such other location as the Directors may designate) using the accrual method of accounting.

(b) The accounts of the Fund shall be audited (at the expense of the Fund) as of the close of each Fiscal Year by a nationally recognized independent registered public accounting firm selected by the General Partner.

Section 10.2 Reports.

- The Administrator/Custodian, with support from the General Partner, shall send to each Limited Partner, on a quarterly basis, a report on the Fund's performance, investment activity, portfolio holdings and characteristics. Such reports shall also include market commentary from the Investment Adviser as well as (A) the Fund's Net Asset Value, cumulative Capital Contributions, and cumulative distributions, and (B) for each Limited Partner, its own Capital Contributions and cumulative distributions. Net Asset Value so reported shall separately identify the Net Asset Value calculated as set forth in **Section 4.3(a), (b) and (c)**, as well as the Net Asset Value Carried Interest applicable to the Fund as a whole and to each recipient Limited Partner's Capital Account, calculated as set forth in **Section 4.3(c)**.
- (a) (i) The quarterly reports will be signed by the President/Chief Executive Officer and the Chief Financial Officer of the Fund.
- (ii) The quarterly reports will be signed by the President/Chief Executive Officer and the Chief Financial Officer of the Fund.
- (b) The Fund shall make quarterly holdings and semi-annual and annual report filings with the SEC as required by the 1940 Act.
- (c) The Fund shall make annual report filings with the SEC as required by the 1940 Act and shall prepare the audited balance sheet and income statement of the Fund as of the end of and for each Fiscal Year. Such reports shall be filed with the SEC and delivered to Limited Partners within 60 days after the end of such Fiscal Year.
- (d) The Fund's audited financial statements will be prepared in accordance with GAAP.
- (e) As soon as reasonably practicable after the end of each Fiscal Year, the Fund shall also furnish to each Limited Partner (on an unaudited basis):
- (i) such Limited Partner's Capital Account as of the end of such Fiscal Year; and
- (ii) a copy of Schedule K-1 to the Fund's federal income tax return for the fiscal year, in a form sufficient to enable the Limited Partner to determine its share, for federal income tax purposes, of all items of Fund income, deduction, gain, loss, preference and credit.

ARTICLE XI
MISCELLANEOUS

Section 11.1 Binding Effect.

This Agreement shall be binding upon and inure to the benefit of the Limited Partners, the parties indemnified hereunder and their respective successors, permitted assigns, heirs and legal representatives.

Section 11.2 Notices.

All notices under this Agreement shall be in writing and shall be deemed to have been duly given if (a) personally delivered (with receipt thereof acknowledged in writing), (b) sent by facsimile, e-mail, digital image file or any other electronic format (collectively, “facsimile”), in each case with receipt of the transmission confirmed (and, unless waived by the recipient upon such receipt, confirmed by delivery in another manner permitted hereunder), (c) if mailed by pre-paid certified mail, return receipt requested or (d) sent by reputable overnight courier (receipt confirmed), in each case to the parties at the following addresses (or at such other address as the Fund or a Limited Partner may have specified to the other by notice as provided herein):

(a) If to the Fund or the General Partner, to Declaration Management & Research LLC, 1800 Tysons Boulevard, Suite 200, McLean, Virginia 22102, facsimile number: (703) 749-8256; e-mail: notices@declaration.com.

(b) If to a Limited Partner, to such Limited Partner at the address set forth in such Limited Partner’s Subscription and Capital Commitment Agreement or other written instrument acceptable to the General Partner.

(c) Notices given in accordance with this **Section 11.2** shall be deemed given on the date of receipt, if delivered personally or by facsimile, on the first Business Day after being sent by a reputable courier service and on the third Business Day after being posted.

(d) Any notice required hereunder need not be prior notice unless expressly so specified. Any notice period specified herein shall end on the Close of Business on the day that is the prescribed number of days following the first day of the relevant period, unless that day is not a Business Day, in which case, as of the next succeeding Business Day.

Section 11.3 Counterparts; Facsimiles; Power of Attorney.

(a) This Agreement may be executed in counterparts with the same effect as if the parties had all executed the same copy. Facsimiles, digital image files or any other

electronic format of executed documents shall, for all purposes of this Agreement and all transactions into which the Fund enters, have the same force and effect as executed originals.

(b) The Fund shall be authorized to accept and execute any instructions given by a Limited Partner in respect of such Limited Partner's Interest, either in original signed form or by facsimile. If instructions are given by facsimile, the Limited Partner shall promptly courier the original signed form to the General Partner and, except as otherwise set forth in **Section 11.16**, will indemnify the General Partner, the Fund and the Declaration Parties for any losses or damages suffered by the General Partner, the Fund or any Declaration Party as a result of acting on facsimile instructions rather than instructions in original signed form; provided, however, the failure of a Limited Partner to deliver the original signed form shall not vitiate the instructions contained in the facsimile. The General Partner, the Fund and the Declaration Parties are entitled to rely conclusively, and shall incur no liability in respect of any action taken or omitted, on the basis of any notice, consent, request, instruction or other instrument believed in good faith to be genuine or to be signed by properly authorized persons.

(c) This Agreement may be executed by power-of-attorney embodied in a Subscription and Capital Commitment Agreement or other written instrument with the same effect as if the parties executing the Subscription and Capital Commitment Agreement or other written instrument had all executed the same copy.

Section 11.4 Entire Agreement.

This Agreement, together with the Subscription and Capital Commitment Agreement executed and delivered by each Limited Partner (other than Declaration), sets forth the entire understanding of all the parties with respect to its subject matter and supersedes all prior agreements and undertakings with respect hereto.

Section 11.5 Amendment.

(a) 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), provided that:

(i) any amendment also must be approved by Limited Partners representing a majority (as defined in the 1940 Act) of the Fund Percentages if (A) such approval by the Limited Partners is required by the 1940 Act or (B) such amendment would adversely affect in any material respect the rights of the Limited Partners;

(ii) any amendment also must be approved by all of the Limited Partners if such amendment would (A) adversely affect the limited liability of the Limited Partners under applicable Law; (B) cause the Fund to cease to be treated as a partnership for federal income tax purposes (unless doing so would increase the net after-tax return of

the Fund's trading to investors); (C) alter the provisions of this **Section 11.5** relating to the amendment of this Agreement; or (D) alter the provisions of **Section 2.8** of this Agreement relating to indemnification; and

(iii) for purposes of the Partners voting on amendments or other Fund action, if the calculation of Net Asset Value is suspended as of the date of such vote, the Fund Percentage shall be determined as of the most recent date that Net Asset Value was determined, subject to adjustment as the General Partner may reasonably determine to reflect subsequent Capital Contributions and distributions.

(b) The General Partner shall promptly notify all Limited Partners of all amendments.

Section 11.6 No Partition.

(a) Each Limited Partner irrevocably waives any right that such Limited Partner might otherwise have had to maintain any claim for partition with respect to any property of the Fund or to compel any sale or appraisal of any Fund asset or any sale or appraisal of a deceased Limited Partner's Interest.

(b) The Limited Partners shall not hold undivided interests in any asset of the Fund, but rather an interest in the Fund itself, which shall for all purposes be considered to constitute personal property.

Section 11.7 Power of Attorney.

Each Limited Partner hereby irrevocably constitutes and appoints the General Partner to be such Limited Partner's true and lawful attorney, in such Limited Partner's name, place, and stead, to make, execute, acknowledge, file and publish, as the General Partner may deem necessary or advisable:

(a) any certificates and other instruments that may be required to be filed by the Fund under the laws of the State of Delaware or any other governmental authority having jurisdiction, or which the General Partner shall deem necessary or advisable to file;

(b) any certificate or other instruments amending or modifying the Certificate of Limited Partnership of the Fund to evidence any changes in that Certificate in accordance with the terms of this Agreement;

(c) any certificates or other instruments that may be required to effect the dissolution and termination of the Fund and the cancellation of the Certificate of Limited Partnership of the Fund;

(d) this Agreement and any amendment to this Agreement that the General Partner is authorized to make in accordance with the terms of this Agreement;

(e) any documents required in connection with brokerage or other accounts of the Fund; and

(f) any other documents which the General Partner may deem necessary or advisable for the conduct of the business of the Fund.

This power of attorney is coupled with an interest, and all Limited Partners will collectively rely on the effectiveness hereof. This power of attorney shall be irrevocable and shall survive the death or disability of a Limited Partner and any assignment of the whole or any part of the Interest held by a Limited Partner and shall be binding upon the assignee thereof.

Section 11.8 Voluntary Limitation on a Limited Partner's Voting Rights.

In the event that a Limited Partner indicates in such Limited Partner's Subscription and Capital Commitment Agreement or by other written notice to the General Partner that such Limited Partner does not wish, for voting purposes, to hold a Fund Percentage in excess of a specified percentage (which may be 0%), the General Partner, by accepting such Subscription and Capital Commitment Agreement or other written notice, shall agree to such Limited Partner waiving, in whole or in part, what would otherwise have been such Limited Partner's Fund Percentage for voting purposes, and such waiver shall be irrevocable and such Limited Partner shall not exercise any voting rights in excess of such specified percentage. The voting rights so waived shall thereupon be deemed to be held by the other Limited Partners, subject to whatever limitation on their Fund Percentages for voting purposes they may elect by the same process, pro rata in accordance with their respective Fund Percentages (after giving effect to all other limitations imposed on the Fund Percentages for voting purposes of such Limited Partners).

Section 11.9 Governing Law; Venue.

(a) THIS AGREEMENT IS MADE PURSUANT TO AND SHALL BE GOVERNED BY THE LAWS OF THE STATE OF DELAWARE, NOTWITHSTANDING THE PLACE WHERE THIS AGREEMENT OR ANY SUBSCRIPTION AND CAPITAL COMMITMENT AGREEMENT IS EXECUTED BY ANY PARTNER OR PROSPECTIVE PARTNER OR THE LOCATION OF ANY OFFICE, VENTURE OR OPERATION OF THE FUND OR ANY PARTNER. EXCEPT AS OTHERWISE SET FORTH IN **SECTION 11.16**, ANY ACTION OR PROCEEDING BROUGHT BY ANY DECLARATION PARTY AGAINST ONE OR MORE PARTNERS OR THE FUND RELATING IN ANY RESPECT TO THIS AGREEMENT, THE OPERATION OF THE FUND OR THE OFFERING OF THE INTERESTS MAY, AND ANY ACTION OR PROCEEDING BROUGHT BY ANY OTHER PARTY AGAINST ANY DECLARATION PARTY OR THE FUND RELATING IN ANY RESPECT TO THIS AGREEMENT, THE OPERATION OF THE

FUND OR THE OFFERING OF THE INTERESTS MAY ALSO, BE BROUGHT AND ENFORCED IN THE CITY, COUNTY AND STATE OF NEW YORK OR (TO THE EXTENT SUBJECT MATTER JURISDICTION EXISTS THEREFOR) IN THE COURTS OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF NEW YORK, AND THE PARTNERS AND THE FUND IRREVOCABLY SUBMIT TO THE NON-EXCLUSIVE JURISDICTION OF BOTH SUCH STATE AND FEDERAL COURTS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING. EXCEPT AS OTHERWISE SET FORTH IN **SECTION 11.16**, THE PARTNERS AND THE FUND IRREVOCABLY WAIVE ANY OBJECTION THAT THEY MAY NOW OR HEREAFTER HAVE TO LAYING THE VENUE OF ANY SUCH ACTION OR PROCEEDING IN THE COURTS OF THE CITY, COUNTY AND STATE OF NEW YORK OR IN THE COURTS OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF NEW YORK AND ANY CLAIM THAT ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

(b) EXCEPT AS OTHERWISE SET FORTH IN **SECTION 11.16**, EACH PARTNER HEREBY IRREVOCABLY WAIVES ANY RIGHT TO TRIAL BY JURY WITH RESPECT TO ANY CLAIM AGAINST ANY DECLARATION PARTY OR THE FUND RELATING IN ANY WAY TO THIS AGREEMENT, THE OPERATION OF THE FUND OR THE OFFERING OF THE INTERESTS.

(c) EACH PARTNER HEREBY AGREES THAT SERVICE OF PROCESS MAY BE EFFECTED ON SUCH PARTNER IN THE SAME MANNER AS NOTICES ARE GIVEN PURSUANT TO **SECTION 11.2**.

Section 11.10 “Declaration” Name and Declaration Intellectual Property.

Neither the Fund nor any Limited Partner in such Limited Partner’s capacity as such shall have, in the absence of a written agreement with Declaration or its designee(s) to the contrary, any title to or right to use the name “Declaration” or any derivative thereof or any trademark used in connection with the name “Declaration.” In addition, neither the Fund nor any Limited Partner in such Limited Partner’s capacity as such shall have, in the absence of a written agreement with Declaration or its designee(s) to the contrary, any title to, interest in, or right to use any Declaration Intellectual Property nor shall such Declaration Intellectual Property become the property of the Fund or any Limited Partner. The Declaration Intellectual Property does not belong to the Fund, but rather is made available to the Fund by one or more Declaration Parties which retain full ownership rights in such Declaration Intellectual Property, regardless of the fact that such items may be paid for, directly or indirectly, by the Fund. Declaration covenants, however, that so long as it or any of its Affiliates is the investment adviser of the Fund, the Fund shall have a royalty-free license to use the Declaration Intellectual Property solely in connection with the business activities of the Fund, which license shall not be transferable or assignable.

Section 11.11 Severability.

In the event that any provision of this Agreement is held to be invalid or unenforceable in any jurisdiction, such provision shall be deemed modified to the minimum extent necessary so that such provision, as so modified, shall no longer be held to be invalid or unenforceable. Any such modification, invalidity or unenforceability shall be strictly limited both to such provision and to such jurisdiction, and in each case to no other. Furthermore, in the event of any such modification, invalidity or unenforceability, this Agreement shall be interpreted so as to achieve the intent expressed herein to the greatest extent possible in the jurisdiction in question and otherwise as set forth herein.

Section 11.12 Survival.

Those agreements and undertakings set forth herein which by their terms contemplate that they shall survive the withdrawal of a Limited Partner or the termination of the Fund shall do so.

Section 11.13 Equitable Relief.

Each Limited Partner agrees that, subject to **Section 11.16**, the Fund and General Partner would be subject to potentially irreparable injury as a result of any breach by such Limited Partner of the covenants and agreements set forth in this Agreement, and that monetary damages would not be sufficient to compensate or make whole either the Fund or the General Partner for any such breach. Accordingly, each Limited Partner agrees that, subject to **Section 11.16**, the Fund and General Partner, separately or together, shall be entitled to equitable and injunctive relief, on an emergency, temporary, preliminary and/or permanent basis, to prevent any such breach or the continuation thereof.

Section 11.14 Compliance with the Advisers Act and the 1940 Act.

All Limited Partners acknowledge and agree that Declaration is registered as an “investment adviser” under the Advisers Act and the Fund as a CNMIC under the 1940 Act and that, accordingly, the provisions of this Agreement are in all cases to be interpreted in a manner consistent with Declaration’s obligations under the Advisers Act and so that the Fund is operated in a manner consistent with the 1940 Act (even if doing so effectively amends the terms of this Agreement).

Section 11.15 No Waiver of Federal or State Securities Law Claims.

None of the various exculpatory or indemnification provisions of this Agreement are to be interpreted as in any respect resulting in a Limited Partner waiving any rights or claims which such Limited Partner may have under any federal or state securities laws.

Section 11.16 Exclusions.

In the event that a Limited Partner is prevented or constricted by Law or governmental policy from providing indemnification or set-off, being subject to a penalty, waiving trial by jury, consenting to a given venue in the case of a proceeding or agreeing to be subject to equitable relief, such Limited Partner shall be excused from such provisions (unless otherwise permitted to be subject thereto).

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

THE GENERAL PARTNER

DECLARATION MANAGEMENT &
RESEARCH LLC

By: _____

Name:

Title:

THE LIMITED PARTNERS

By: Declaration Management & Research LLC
Attorney-in-fact

By: _____

Name:

Title:

**DECLARATION MANAGEMENT &
RESEARCH LLC,**

in its individual capacity, with respect to
Sections 6.4(c) and 6.4(d) only

By: _____

Name:

Title:

**DMR MORTGAGE OPPORTUNITY
FUND LP**

**SUBSCRIPTION AND CAPITAL COMMITMENT AGREEMENT
LIMITED PARTNERSHIP INTERESTS**

Minimum Capital Commitment: \$5,000,000

THESE ARE SPECULATIVE SECURITIES

FOR THE USE OF U.S. INVESTORS ONLY

September 22, 2008

ONLY "ELIGIBLE INVESTORS" MAY INVEST

DMR MORTGAGE OPPORTUNITY

FUND LP

SUBSCRIPTION INSTRUCTIONS

DMR Mortgage Opportunity Fund LP (the “Fund”) is a speculative investment offered only to persons meeting the qualifications specified in this Subscription and Capital Commitment Agreement. Those prospective investors that meet such qualifications are referred to herein as “Eligible Investors.” Among such qualifications each Eligible Investor must be (i) an institutional “accredited investor,” as defined in Regulation D under the Securities Act of 1933, as amended, and (ii) a “qualified client” as defined in Rule 205-3 of the Investment Advisers Act of 1940, as amended, unless otherwise determined by the Fund. All investors must have a high level of financial sophistication and be able to evaluate the merits and risks of a specialized, non-traditional investment vehicle such as the Fund, including the risk of losing one’s entire investment.

The speculative nature of an investment in the Fund makes it appropriate only for a limited portion of the risk segment of a portfolio.

This Subscription and Capital Commitment Agreement is not accepted until **Declaration Management & Research LLC**, the general partner and investment adviser of the Fund (“**Declaration**”), has executed a counterpart of the Execution Pages of this Subscription and Capital Commitment Agreement and returned them to the Subscriber.

The Subscription and Capital Commitment Agreement has been formatted so that only the Execution Pages need to be completed.

Subscriptions which are not paid when due may be subject to rejection, to being held without interest until the next issuance of Interests and/or to being assessed for all related losses, costs and interest.

Subscriptions must be paid by wire transfer to the following account:

Bank Name:	LaSalle Bank National Association
ABA Number:	071000505
Account Name:	Trust GL
Account Number:	2090067
Further Credit to:	ACCT# 725402.2
Ref:	DMR Mortgage Opportunity Fund LP Sub/Red – <i>(insert name of investor)</i>
Attn:	Kateri Malecek (312) 992-1136

If you have any questions concerning how to complete the Execution Pages of this Subscription and Capital Commitment Agreement, please contact Gregory Casey, a representative of **John Hancock Distributors LLC (the “Placement Agent”)** at (703) 749-8270.

This Subscription and Capital Commitment Agreement will be kept strictly confidential and will not be reviewed by any parties other than Declaration, the Placement Agent and their respective agents and counsel. Please return completed and signed Execution Pages by fax to (703) 749-8256 and by mail to the following address:

DMR MORTGAGE OPPORTUNITY FUND LP
c/o Declaration Management & Research LLC
1800 Tysons Boulevard, Suite 200
McLean, Virginia 22102
Attention: John Pluta



DMR MORTGAGE OPPORTUNITY FUND LP

SUBSCRIPTION AND CAPITAL COMMITMENT AGREEMENT

DMR MORTGAGE OPPORTUNITY FUND LP
c/o Declaration Management & Research LLC
1800 Tysons Boulevard, Suite 200
McLean, Virginia 22102
Telephone: (703) 749-8269

JOHN HANCOCK DISTRIBUTORS LLC
c/o Declaration Management & Research LLC
1800 Tysons Boulevard, Suite 200
McLean, VA 22102
Telephone: (703) 749-8270

Dear Ladies and Gentlemen:

1. Subscription for an Interest. The Subscriber hereby subscribes to make a Capital Commitment to **DMR Mortgage Opportunity Fund LP (the "Fund")** in the amount set forth on the Execution Pages and thereby to acquire a **limited partnership interest (an "Interest")** in the Fund. The Subscriber understands that, if accepted, the Subscriber's Capital Commitment causes the Subscriber to become a **limited partner ("Limited Partner")**, and to be subject to the terms of the **Second Amended and Restated Limited Partnership Agreement of the Fund (the "Limited Partnership Agreement")**, as the same may be modified and amended from time to time, as well as to the risks, uncertainties, contingencies and expenses associated with an investment in the Fund, as summarized in the **Confidential Preliminary Private Placement Memorandum of the Fund dated September 19, 2008, as the same may be supplemented or otherwise modified to the date hereof (the "Memorandum")**. Capitalized terms used herein and not otherwise defined are used with the meanings set forth in the Memorandum and the Limited Partnership Agreement.

This Subscription and Capital Commitment Agreement is subject to being accepted or rejected (in whole or in part) by **Declaration Management & Research LLC**, the general partner and investment adviser of the Fund ("**Declaration**").

The minimum Capital Commitment is \$5,000,000. Declaration may waive the foregoing minimum in its sole discretion. Interests are only available at two closings (**each, a "Closing Date"**). Capital Commitments were initially accepted as of May 15, 2008 and Capital Commitments will be accepted for the second Closing Date as of September 22, 2008.

The Subscriber acknowledges and agrees that if the Subscriber's subscription to purchase an Interest is accepted, the Subscriber is obligated to make Capital Contributions, on the date(s) specified by Declaration in a Capital Call upon not less than ten (10) Business Days' prior notice to the Subscriber, substantially in the form attached as **Schedule A** hereto.

2. Eligibility. As an inducement to Declaration, under the ultimate supervision of the Fund's **Board of Directors (the "Board")**, to accept this Subscription and Capital Commitment Agreement on behalf of the Fund, the Subscriber hereby represents and warrants to the Fund, the Board, Declaration and **John Hancock Distributors LLC (the "Placement Agent")** as follows:

- (a) The Subscriber is duly authorized and qualified to become a Limited Partner, and the Person(s) executing this Subscription and Capital Commitment Agreement on behalf of the Subscriber has

(have) been duly authorized by the Subscriber to execute and deliver this Subscription and Capital Commitment Agreement on behalf of the Subscriber.

(b) The Subscriber is either: (i) acquiring the Interest for which the Subscriber has hereby subscribed for the Subscriber's own account, for investment purposes only, not as a nominee or financial intermediary and not with a view to or for the resale or distribution thereof, in whole or in part, and no other Person has a direct or indirect beneficial interest in the Interest (including, without limitation, an economic interest arising out of a structured note, swap or similar transaction entered into between the Subscriber and any other Person with respect to which the Fund constitutes any component of the underlying reference asset); or (ii) subscribing as a nominee for Person(s) acquiring an economic interest in the Fund. All representations, warranties, acknowledgements and covenants set forth herein that are made by the Subscriber shall be deemed also to be made by the Subscriber on behalf of the Person(s) in respect of which the Subscriber is acting in such capacity. Any such Person(s) is/are responsible to the Fund, Declaration, and the Placement Agent for the representations, warranties, acknowledgements and covenants of such Person(s) to the same extent as such Person(s) would be responsible for had they executed this Subscription and Capital Commitment Agreement themselves.

(c) The Subscriber has all governmental, regulatory and administrative registrations and approvals required for the Subscriber to invest in the Fund.

(d) The Subscriber has sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of making a Capital Commitment to the Fund. The Subscriber has evaluated the risks of investing in the Fund, understands there are substantial risks of loss in acquiring the Interest and has determined that the Interest is a suitable investment for the Subscriber. For the avoidance of doubt, the Subscriber has determined that the Subscriber's Capital Commitment is consistent with the Subscriber's investment purposes, objectives and cash flow requirements, as well as the Subscriber's need for diversification and liquidity in the Subscriber's overall portfolio. The Subscriber understands that the Subscriber's Capital Commitment may not be reduced, revoked or suspended (other than in the unlikely event of a Key Person Event and under other strictly limited circumstances set forth in the Limited Partnership Agreement), irrespective of material adverse changes in the Fund's net asset value, the economic climate, the Fund, Declaration, and/or the Subscriber's own financial condition and portfolio.

3. Representations, Warranties and Acknowledgements. As an inducement to Declaration, under the ultimate supervision of the Board, to accept this Subscription and Capital Commitment Agreement, the Subscriber hereby represents and warrants to the Fund, the Board, Declaration and the Placement Agent as follows:

(a) The Subscriber:

(i) has been furnished a copy of the Memorandum and has carefully read and understands the Memorandum, has evaluated the risks of a purchase of the Interest, including the risks set forth in the Memorandum under "Certain Risk Factors" and the considerations described under "The Fund's Investment Objective and Strategies" and "Certain Federal Income Tax Considerations," and has relied solely on the information contained in the Memorandum or in the Fund's Form N-2 (or other reports required to be filed with the **U.S. Securities and Exchange Commission (the "SEC")**) in deciding whether to invest in the Fund (irrespective of any other materials and information furnished to the Subscriber in connection with such investment);

(ii) has been furnished with any materials relating to the Fund, its operation, the private placement of the Interests, the performance of the Fund, the Material Contracts, the investment experience of Declaration and any other matters relating to the Fund and Declaration and this investment that the Subscriber has requested. The Subscriber acknowledges that the Fund and/or Declaration may refuse to furnish to the Subscriber any materials which Declaration deems to be proprietary;

(iii) has been afforded the opportunity to ask questions of, and receive answers from, Declaration and the Placement Agent to the extent that the Subscriber has deemed necessary or advisable in order to verify the accuracy of the information set forth in the Memorandum;

(iv) has determined that the Interest is a suitable investment for the Subscriber and that the Subscriber has the financial ability to bear the economic risk of the Subscriber's investment in the Fund (including the possible complete loss of such investment), has adequate means of providing for the Subscriber's current needs, financial contingencies and cash flow requirements and has no need for liquidity with respect to an investment in the Fund; and

(v) has a pre-existing and substantive relationship with Declaration or the Placement Agent.

(b) (i) In making its decision to purchase the Interest, the Subscriber has relied solely upon independent investigations made by the Subscriber or by its professional advisors. The Subscriber is not relying on the Fund, the Placement Agent, Declaration or their respective affiliates, owners, directors, officers and representatives with respect to any legal, tax or other economic considerations relating to the Subscriber's investment decision, and further understands that the only disclosures for which the Fund or Declaration accepts any responsibility relating to the Subscriber's investment are those set forth in the Memorandum.

(ii) The Subscriber acknowledges and agrees that neither Declaration nor the Placement Agent has acted as an investment adviser or as a fiduciary to the Subscriber with respect to the Subscriber's investment in an Interest.

(c) The Subscriber has determined that an investment in the Interest is consistent with any obligation the Subscriber may have to its beneficiaries or beneficial owners, if any.

(d) The Subscriber understands that the Subscriber may not sell or otherwise Transfer any part of the Interest without the consent of Declaration, which will be granted if the Transferee is an Eligible Investor, the Transfer is permitted under applicable securities law restrictions, including without limitation an applicable exemption from registration under the **Securities Act of 1933, as amended (the "Securities Act")**, and the Transfer will not result in the Fund constituting a publicly traded partnership for tax purposes. The Subscriber also understands and agrees that a Transferring Limited Partner shall remain responsible for any Capital Calls due on the Transferred Interest in the event that the Transferee defaults.

(e) The Subscriber understands that the Fund is registered as a closed-ended, non-diversified management investment company under the **Investment Company Act of 1940, as amended (the "1940 Act")**.

(f) The Subscriber understands that the Fund trades futures contracts. However, as an investment company registered as such under the 1940 Act, the Fund has claimed an exclusion from registration as a **commodity pool operator ("CPO")** pursuant to **Commodity Futures Trading Commission ("CFTC")** Rule 4.5(a)(1) and is not subject to CPO regulation. Also, Declaration is exempt from registration as a **commodity trading advisor ("CTA")** and is generally not subject to CTA regulation.

(g) The Subscriber has carefully reviewed and understands the terms of the Material Contracts, and the Subscriber specifically agrees to and acknowledges the exculpation and indemnification provisions set forth in the Limited Partnership Agreement and that such provisions shall survive the dissolution of the Fund. Subject to **Section 12(d)**, the Subscriber hereby specifically waives any recourse against the Fund, the Placement Agent, or Declaration, or their respective affiliates, owners, directors, officers and representatives (**each, a "Declaration Party"**) in respect of the offering of the Interest and the operations of the Fund, provided that the Declaration Party in question complies with the standard of liability set forth in **Section 2.7** of the Limited Partnership Agreement.

- (h) The Subscriber confirms that none of the Fund or any Declaration Party guarantees the success of an investment in the Interest or that substantial or total losses will not be incurred on such investment.
- (i) The Fund has a short financial and operating history.
- (j) The Subscriber understands that because Declaration is eligible to receive the Carried Interest distributions, Declaration may have incentives to invest in more speculative investments than Declaration otherwise would.
- (k) The Subscriber could lose all or substantially all of its investment and will be committed to the Fund for an indefinite period of time with no ability to withdraw capital or otherwise recognize profits or losses on its investment. The Subscriber understands that the Interest is not able to be withdrawn at the option of the Subscriber.
- (l) The Subscriber acknowledges that the business terms of the Fund have been established without the interest of any particular investor being represented.
- (m) The Subscriber acknowledges that Declaration, as well as its Affiliates, currently manage other investment funds in addition to the Fund and may have financial and other incentives to favor certain of such investment funds over the Fund.
- (n) The Subscriber understands and consents to the brokerage and custody arrangements used by the Fund, as described under “Brokerage Arrangements” in the Memorandum.
- (o) The Subscriber understands that no federal or state agency, securities or commodity exchange or self-regulatory body has reviewed the Memorandum or the private placement of the Interests or made any finding or determination as to the fairness of the business terms of an investment in the Fund.
- (p) The Subscriber represents and warrants that, except as it may disclose in writing to Declaration, the Subscriber is not subject to the Freedom of Information Act or any similar legislation or regulation that could compel the Subscriber to disclose to the public any information regarding the Subscriber’s investment in the Fund. The Subscriber agrees to treat all information regarding Declaration or the Fund (except for information that is otherwise publicly available) as confidential unless Declaration gives express written approval for the Subscriber not to do so. The Subscriber may, however, share confidential information with its professional advisers, with investors in the case of an investor which is itself a private investment fund or with any person controlling such Subscriber, provided that the Subscriber has notified such other persons of the confidentiality of such information. The Subscriber may also disclose confidential information if required to do so by law or in response to regulatory reporting requirements of such Subscriber or regulatory requests (including, for this purpose, from the National Association of Insurance Commissioners).
- (q) The Subscriber acknowledges that in the event that a Person becomes a Shareholder and as a result an Impermissible Event (as defined in the Limited Partnership Agreement) occurs, Declaration may, but shall be under no obligation to, exercise a number of remedies, including: (i) immediately requiring the withdrawal of part or all of such Person’s Capital Account and, subject to Section 12(d), to the extent that the other Limited Partners have been damaged by the admission of such Limited Partner and such admission was permitted, in whole or in part, as a result of a misstatement or breach by such Person, such Person’s withdrawal proceeds shall be debited with the amount which Declaration determines is appropriate to compensate such other Limited Partners for any such damage, irrespective of whether Declaration had expressly consented thereto; (ii) causing the relevant Limited Partner to forfeit all or any portion of future Distributions, other than in respect of a return of capital, made by the Fund; and (iii) causing the relevant Limited Partner to be excluded from participating in future Fund investments. Furthermore, the Subscriber acknowledges that, in the event that the Fund mandatorily withdraws the balance of a Capital Account, the Fund shall pay withdrawal proceeds in respect of such Capital Account to

the relevant Limited Partner, without interest, in one or more installments at any time after the commencement of the Distribution Period.

(r) The Subscriber agrees that the foregoing representations and warranties, and all other information regarding the Subscriber set forth herein, may be used as a defense in any actions relating to the Fund or the offering of the Interests, and that it is only on the basis of such representations, warranties and other information that Declaration may be willing to accept the Subscriber's subscription for the Interest.

(s) If there should be any material change in any of the foregoing information, representations or warranties, the Subscriber agrees to inform the Fund, Declaration and the Placement Agent as promptly as reasonably practicable. The Subscriber acknowledges that the Fund, Declaration, the Declaration Parties, the other Partners and the Placement Agent will rely on such information, representations and warranties on an ongoing basis.

THE FUND IS A SPECULATIVE INVESTMENT THAT INVOLVES RISK, INCLUDING THE RISK OF LOSING ALL OR SUBSTANTIALLY ALL OF THE AMOUNT INVESTED. THE SUBSCRIBER SHOULD NOT REGARD THE FUND AS A COMPLETE INVESTMENT PROGRAM.

THE SUBSCRIBER HAS READ CAREFULLY AND UNDERSTANDS THE MEMORANDUM AND HAS RELIED ON THE SUBSCRIBER'S OWN ADVISORS WITH RESPECT TO THE SUBSCRIBER'S INVESTMENT IN THE INTEREST AND THE SUITABILITY OF SUCH INVESTMENT FOR THE SUBSCRIBER. THE SUBSCRIBER HAS NOT RELIED ON ANY OF THE FUND, DECLARATION, ANY DECLARATION PARTY OR THE PLACEMENT AGENT FOR TAX OR LEGAL ADVICE, BUT ONLY ON THE SUBSCRIBER'S OWN ADVISORS.

4. ERISA Representations. If the Subscriber is, or is acting on behalf of, an "employee benefit plan", as defined in and subject to ERISA, a "plan", as defined in and subject to Section 4975 of the Code (a "Plan"), or a Plan Assets Entity (in which case, the following representations and warranties are made with respect to each Plan holding an investment in such Plan Assets Entity), the individual signing this Subscription and Capital Commitment Agreement on behalf of the Subscriber, in addition to the representations and warranties set forth above, hereby further represents and warrants as, or on behalf of, the fiduciary of the Plan responsible for purchasing an Interest (the "Plan Fiduciary") that: (a) the Plan Fiduciary has considered an investment in the Fund for such Plan in light of the risks relating thereto; (b) the Plan Fiduciary has determined that, in view of such considerations, the investment in the Fund is consistent with the Plan Fiduciary's responsibilities under ERISA; (c) the Plan's investment in the Fund does not violate and is not otherwise inconsistent with the terms of any legal document constituting the Plan or any trust agreement thereunder; (d) the Plan's investment in the Fund has been duly authorized and approved by all necessary parties; (e) none of Declaration, any Director, the Placement Agent, any other placement agent, any of their respective affiliates or any of their respective agents or employees: (i) has investment discretion with respect to the investment of assets of the Plan used to purchase an Interest; (ii) has authority or responsibility to or regularly gives investment advice with respect to the assets of the Plan used to purchase an Interest for a fee and pursuant to an agreement or understanding that such advice will serve as a primary basis for investment decisions with respect to the Plan and that such advice will be based on the particular investment needs of the Plan; or (iii) is an employer maintaining or contributing to the Plan; and (f) the Plan Fiduciary (i) is authorized to make, and is responsible for, the decision to invest in the Fund, including the determination that such investment is consistent with the requirement imposed by Section 404 of ERISA that Plan investments be diversified so as to minimize the risks of large losses, (ii) is independent of Declaration, each Director, the Placement Agent, each other placement agent and each of their respective affiliates, and (iii) is qualified to make such investment decision. The Subscriber will, at the request of Declaration, furnish Declaration with such information as Declaration may reasonably require to establish that the purchase of the Interest by the Plan does not violate any provision of ERISA or the Code, including without limitation, those provisions relating to "prohibited transactions" by "parties in interest" or "disqualified persons" as defined therein.

5. Investment Advisers Act. The undersigned is a "qualified client" under Rule 205-3 of the Advisers Act because the undersigned (a) has a net worth in excess of \$1,500,000 or (b) is a "qualified purchaser" under Section 2(a)(51)(A) of the 1940 Act.

6. Representations and Warranties of the Subscriber under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the “USA PATRIOT Act”). As an inducement to the Fund to accept this Subscription and Capital Commitment Agreement, the Subscriber hereby represents and warrants to the Fund, Declaration and the Placement Agent as follows:

(a) All evidence of identity provided by the Subscriber to the Fund, Declaration and/or the Placement Agent is genuine, and all related information furnished by the Subscriber to the Fund, Declaration and/or the Placement Agent is accurate. As part of their responsibility for preventing an investment in the Fund from being used as a means of money laundering, any of the foregoing may require a detailed verification of the identity of the Subscriber (as well as the Subscriber’s direct or indirect beneficial owners, if any).

(b) The Subscriber agrees to provide any information deemed necessary from time to time by the Fund, Declaration and/or the Placement Agent to comply with applicable anti-money laundering laws, their respective anti-money laundering programs and related responsibilities.

(c) The Subscriber restates and reaffirms the representations and warranties made by the Subscriber in **Section 2(b)** in the specific context of money-laundering prevention.

(d) Unless otherwise stated herein, the Subscriber is not acting as agent, representative, intermediary/nominee or in any similar capacity for any other Person.

(e) The Subscriber represents, warrants and covenants that none of the Subscriber, any Person controlling, controlled by, or under common control with, the Subscriber, or any Person having a beneficial interest in the Subscriber or that will have a beneficial interest in the Interest, is a Prohibited Investor,¹ and that the Subscriber is not investing and will not invest in the Fund on behalf of or for the benefit of any Prohibited Investor. The Subscriber agrees promptly to notify Declaration and the Placement Agent of any change in the information affecting this representation, warranty and covenant.

(f) The Subscriber acknowledges that, if, following the issuance of an Interest to the Subscriber, the Fund believes that the Subscriber is a Prohibited Investor, has otherwise breached any of the Subscriber’s representations, warranties or covenants set forth herein, furnished incorrect information to the Fund or otherwise caused concerns under the anti-money laundering program and related responsibilities of the Fund, Declaration and/or the Placement Agent, the Fund may be obliged to freeze the Subscriber’s investment, which the Fund may do by declining any additional Capital Commitment, Capital Contribution, Distribution or Transfer submitted by the Subscriber, segregating the assets attributable to the Subscriber’s Interest and/or taking such other action as the Fund considers necessary or advisable in order to comply with Law, including requiring the mandatory capital withdrawal of part or all of the Subscriber’s Interest.

(g) The Subscriber acknowledges that additional Capital Commitments and/or Capital Contributions by the Subscriber may be refused and/or a Distribution may be delayed or declined by the Fund in its sole discretion in accordance with the Limited Partnership Agreement, this Subscription and Capital Commitment Agreement and the Memorandum.

¹ “Prohibited Investors” include: (1) a Person whose name appears on the list of Specially Designated Nationals and Blocked Persons maintained by the **Office of Foreign Assets Control (“OFAC”)** or subject to OFAC country sanctions, any Securities and Exchange Commission-maintained blocked persons list or other lists as required by Law, the Fund or Declaration, (2) any Foreign Shell Bank, (as defined below), and (3) any Person resident in or whose subscription funds are transferred from or through an account in a jurisdiction that has been designated as non-cooperative with international anti-money laundering principles or procedures by an intergovernmental group or organization, such as the **Financial Action Task Force on Money Laundering (“FATF”)**, of which the United States is a member, and with which designation the U.S. representative to the group or organization continues to concur. See <http://www.fatf-gafi.org> for FATF’s list of Non-Cooperative Jurisdictions and Territories.

(h) None of the Subscriber or any director, officer, partner, member, shareholder, affiliate (as defined under the applicable regulations) or beneficial owner of the Subscriber is a Senior Foreign Political Figure,² any member of a Senior Foreign Political Figure's Immediate Family³ or any Close Associate⁴ of a Senior Foreign Political Figure.

(i) The Subscriber is not resident in, or organized or chartered under the laws of, a jurisdiction that has been designated by the Secretary of the Treasury under Section 311 of the USA PATRIOT Act as warranting special measures due to money laundering concerns.⁵

(j) The Subscriber's Capital Commitment does not originate from, nor will it be routed through, an account maintained at a Foreign Shell Bank⁶ or a bank organized or chartered under the laws of a jurisdiction that has been designated as non-cooperative with international anti-money laundering principles.

(k) The Subscriber acknowledges and agrees that, subject to anti-money laundering regulations or procedures, the Fund has discretion to wire transfer any and all funds payable to the Subscriber to the account specified by the Subscriber in this Subscription and Capital Commitment Agreement.

(l) The Subscriber acknowledges and agrees that the Fund, Declaration and/or the Placement Agent may release confidential information concerning the Subscriber and, if applicable, any Person with a direct or indirect beneficial interest in the Interest or in the Subscriber itself, to regulatory or law

² "Senior Foreign Political Figure" means a current or former senior political official in the executive, legislative, administrative, military or judicial branches of a non-U.S. government (whether elected or not), a current or former senior official of a major non-U.S. political party, or a current or former senior executive of a non-U.S. government-owned corporation. In addition, a Senior Foreign Political Figure includes any corporation, business or other entity that has been formed by, or for the benefit of, a Senior Foreign Political Figure.

³ "Immediate Family," with respect to a Senior Foreign Political Figure, typically includes the political figure's parents, siblings, spouse, children and in-laws.

⁴ "Close Associate" means, with respect to a Senior Foreign Political Figure, a person who is widely and publicly known internationally to maintain an unusually close relationship with the Senior Foreign Political Figure, and includes a person who is in a position to conduct substantial U.S. and non-U.S. financial transactions on behalf of the Senior Foreign Political Figure.

⁵ The Treasury Department's **Financial Crimes Enforcement Network ("FinCEN")** issues advisories regarding countries of primary money laundering concern. FinCEN's advisories are posted at http://www.fincen.gov/pub_main.html. Current Section 311 special measures can be found at http://www.fincen.gov/reg_section311.html.

⁶ "Foreign Shell Bank" means a Foreign Bank without a Physical Presence (each as defined below) in any country, but does not include a Regulated Affiliate (as defined below).

"Foreign Bank" means an organization that: (i) is organized under the laws of a country outside the United States; (ii) engages in the business of banking; (iii) is recognized as a bank by the bank supervisory or monetary authority of the country of its organization or principal banking operations; (iv) receives deposits to a substantial extent in the regular course of its business; and (v) has the power to accept demand deposits, but does not include the U.S. branches or agencies of a non-U.S. bank.

"Physical Presence" means a place of business that is maintained by a Foreign Bank and is located at a fixed address, other than solely a post office box or an electronic address, in a country in which the Foreign Bank is authorized to conduct banking activities, at which location the Foreign Bank: (i) employs one or more individuals on a full-time basis; (ii) maintains operating records related to its banking activities; and (iii) is subject to inspection by the banking authority that licensed the Foreign Bank to conduct banking activities.

"Regulated Affiliate" means a Foreign Shell Bank that: (i) is an affiliate of a depository institution, credit union, or Foreign Bank that maintains a Physical Presence in the United States or a non-U.S. country, as applicable; and (ii) is subject to supervision by a banking authority in the country regulating such affiliated depository institution, credit union, or Foreign Bank.

enforcement authorities, if the Fund, Declaration and/or the Placement Agent determines that it is required or advisable to do so in order to ensure compliance with Law.

(m) The Subscriber, by executing the Execution Pages of this Subscription and Capital Commitment Agreement, represents and warrants that the Subscriber's Capital Contribution has been, and future Capital Contributions will be, derived from legal sources. As part of the Fund's responsibility for protection against money laundering, the Fund may require a detailed verification of the identity of the Subscriber. Depending on the circumstances of this Subscription and Capital Commitment Agreement, a detailed verification might not be required where:

(i) the Subscriber makes the payment from an account held in the Subscriber's name at a recognized financial institution; or

(ii) the Subscriber's Capital Commitment is made through an intermediary known to Declaration and/or the Placement Agent.

These exceptions will only apply if the financial institution or intermediary referred to above is within a country recognized as having sufficient anti-money laundering regulations and only if the Fund determines in its sole discretion, after any further inquiry or investigation it may deem necessary, that any such exception is consistent with the Fund's anti-money laundering policies.

(n) In addition to the provisions of **Sections 6(a) and 6(b)**, the Fund, Declaration and the Placement Agent each reserves the right to request such information as the Fund, Declaration or any Declaration Party, as the case may be, may deem necessary or advisable to verify the identity of the Subscriber (or the Subscriber's direct or indirect beneficial owners) or to require the Subscriber, if an entity, to provide a copy of its anti-money laundering policies to the Fund, Declaration, any Declaration Party and/or the Placement Agent, as the case may be. In the event of any delay or failure by the Subscriber to produce any information so requested, Declaration or the Fund may refuse to accept any new Capital Commitment from the Subscriber or may refuse to process a Distribution or Transfer by the Subscriber until proper information has been provided. The Fund reserves the right to withdraw the Interest of any Subscriber if at any time the Subscriber fails to provide any additional information requested by the Fund, Declaration, any Declaration Party or the Placement Agent for verification purposes, for purposes of evaluating the Subscriber's anti-money laundering policies in light of their respective anti-money laundering policies and related responsibilities.

(o) The Subscriber agrees that it shall have no claim against the Fund, Declaration, any Declaration Party or the Placement Agent for any form of damages as a result of the Fund, Declaration, any Declaration Party or the Placement Agent taking any of the actions referred to in this **Section 6**.

The Subscriber agrees promptly to notify Declaration and the Placement Agent (or the Person appointed by each to administer their respective anti-money laundering programs in respect of the Fund, as notified to the Subscriber by each of the foregoing), if any of the foregoing representations or warranties are no longer accurate or if the Subscriber is not complying with any of the foregoing covenants, in each case in all material respects.

7. Voluntary Limitation on Fund Percentage for Voting Purposes. In the event that the Subscriber indicates on the Execution Pages that the Subscriber does not wish to have a Fund Percentage for voting purposes in excess of a specified percentage, the Fund, by accepting this Subscription and Capital Commitment Agreement, agrees to the Subscriber waiving, in whole or in part, what would otherwise have been the Subscriber's Fund Percentage to the extent required not to exceed such percentage. The Subscriber agrees that such waiver shall be irrevocable and that the Subscriber shall not exercise any voting rights with respect to its Fund Percentage in excess of such specified percentage. The voting rights so waived shall thereupon be deemed to be held by the other Limited Partners *pro rata* in accordance with their respective Fund Percentages (after giving effect to all other limitations imposed on the Fund Percentages for voting purposes of such Limited Partners).

8. Acceptance of the Limited Partnership Agreement. The Subscriber agrees that on the date designated by Declaration as the date as of which the Subscriber has been admitted to the Fund, the Subscriber shall become a Limited Partner, and the Subscriber hereby agrees to each and every term of the Limited Partnership Agreement.

9. Use of Statements and Information in the Subscription and Capital Commitment Agreement. The Subscriber agrees that the foregoing statements, and all other information regarding the Subscriber set forth herein, may be used as a defense in any claim relating to the Fund and/or the offering of the Interests, and that it is only on the basis of such statements and other information that Declaration may be willing to cause the Fund to issue an Interest to the Subscriber.

10. Power of Attorney. In connection with the acquisition of the Interest pursuant to this Subscription and Capital Commitment Agreement, the Subscriber does hereby irrevocably constitute and appoint Declaration as the Subscriber's true and lawful attorney, in the Subscriber's name, place and stead, to execute, acknowledge, swear to, file and record (if applicable) on the Subscriber's behalf, and in the appropriate public offices if relevant: (i) the Limited Partnership Agreement; (ii) a Certificate of Formation including amendments thereto; (iii) all instruments which Declaration may deem necessary or appropriate to reflect any amendment, change or modification of the Limited Partnership Agreement or the Certificate of Formation in accordance with the terms of the Limited Partnership Agreement; and (iv) all instruments, agreements and documents which Declaration considers necessary to or appropriate for the operation of the Fund as contemplated in the Memorandum.

The Subscriber agrees and acknowledges that the other Limited Partners are relying on the continued validity of the foregoing Power of Attorney, and that the Power of Attorney granted hereby shall be deemed to be coupled with an interest and shall be irrevocable, surviving the death, incapacity or dissolution of the Subscriber.

This Power-of-Attorney shall survive the Transfer of the whole or any portion of the Subscriber's Interest, except that, with respect to the Transferor, this Power-of-Attorney shall also survive the Transfer for the sole purpose of enabling Declaration to execute, acknowledge, swear to and file any instrument necessary to effect such Transfer.

11. Documentation.

If the Subscriber is an entity, Declaration may request certain documentation prior to determining whether to accept their subscription. Upon request::

(a) an entity will be required to provide evidence that the Person(s) executing this Subscription and Capital Commitment Agreement on behalf of the Subscriber has been duly authorized by the Subscriber to execute and deliver this Subscription and Capital Commitment Agreement on behalf of the Subscriber, *e.g.*, resolutions of its board of directors and specimen signatures;

(b) a corporation may be required to deliver one copy of its articles of incorporation and by-laws, and a copy of any document authorizing or governing its investment policies, *e.g.*, resolutions of its board of directors;

(c) a partnership may be required to deliver one copy of its partnership agreement or other governing agreement;
and

(d) a trust may be required to deliver one copy of its declaration of trust or other governing instrument and any document authorizing or governing its investment policies.

12. Miscellaneous. The following provisions are applicable even if the Subscriber's Subscription and Capital Commitment Agreement is not accepted, and the Subscriber does not become a Limited Partner.

(a) **Governing Law; Consent to Jurisdiction; Waiver of Jury Trial.**

(i) THIS SUBSCRIPTION AND CAPITAL COMMITMENT AGREEMENT IS MADE PURSUANT TO AND SHALL BE GOVERNED BY THE LAWS OF THE STATE OF DELAWARE, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW AND NOTWITHSTANDING THE PLACE WHERE THIS SUBSCRIPTION AND CAPITAL COMMITMENT AGREEMENT IS EXECUTED OR THE LOCATION OF ANY OFFICE, VENTURE OR OPERATION OF THE FUND, DECLARATION, ANY DECLARATION PARTY, THE PLACEMENT AGENT OR THE SUBSCRIBER. EXCEPT AS OTHERWISE SET FORTH IN **SECTION 12(d)**, ANY ACTION OR PROCEEDING RELATING IN ANY RESPECT TO THIS SUBSCRIPTION AGREEMENT, THE OPERATION OF THE FUND, THE MATERIAL CONTRACTS OR THE OFFERING OF THE INTERESTS MAY BE BROUGHT AND ENFORCED IN THE COURTS OF THE CITY, COUNTY AND STATE OF NEW YORK OR (TO THE EXTENT SUBJECT MATTER JURISDICTION EXISTS THEREFOR) IN THE COURTS OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF NEW YORK, AND THE FUND, DECLARATION, ANY DECLARATION PARTY, THE PLACEMENT AGENT AND/OR THE SUBSCRIBER IRREVOCABLY SUBMIT TO THE NON-EXCLUSIVE JURISDICTION OF BOTH SUCH STATE AND FEDERAL COURTS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING. EXCEPT AS OTHERWISE SET FORTH IN **SECTION 12(d)**, THE SUBSCRIBER AND THE FUND IRREVOCABLY WAIVE ANY OBJECTION THAT THEY MAY NOW OR HEREAFTER HAVE TO LAYING THE VENUE OF ANY SUCH ACTION OR PROCEEDING IN THE COURTS OF THE CITY, COUNTY AND STATE OF NEW YORK OR IN THE COURTS OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF NEW YORK AND ANY CLAIM THAT ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

(ii) EXCEPT AS OTHERWISE SET FORTH IN **SECTION 12(d)**, THE SUBSCRIBER HEREBY IRREVOCABLY WAIVES ANY RIGHT TO TRIAL BY JURY WITH RESPECT TO ANY CLAIM AGAINST THE FUND, DECLARATION, ANY DECLARATION PARTY, OR THE PLACEMENT AGENT RELATING IN ANY RESPECT TO THIS SUBSCRIPTION AND CAPITAL COMMITMENT AGREEMENT, THE OPERATION OF THE FUND, THE MATERIAL CONTRACTS OR THE OFFERING OF THE INTERESTS.

(iii) THE SUBSCRIBER HEREBY AGREES THAT SERVICE OF PROCESS MAY BE EFFECTED ON THE SUBSCRIBER IN THE SAME MANNER AS NOTICES ARE GIVEN PURSUANT TO **SECTION 15**.

(b) **Equitable Relief.** The Subscriber agrees that, subject to **Section 12(d)**, the Fund, the Board, Declaration, any Declaration Party and/or the Placement Agent would be subject to potentially irreparable injury as a result of any breach by the Subscriber of any of the representations, warranties, acknowledgements, covenants or agreements set forth in this Subscription and Capital Commitment Agreement, and that monetary damages would not be sufficient to compensate or make whole the Fund, the Board, Declaration, any Declaration Party and/or the Placement Agent for any such breach. Accordingly, the Subscriber agrees that, subject to **Section 12(d)**, the Fund, the Board, Declaration, any Declaration Party and/or the Placement Agent, separately or together, shall be entitled to equitable and injunctive relief, on an emergency, temporary, preliminary and/or permanent basis, so as to prevent any such breach or the continuation thereof.

(c) **Survival; Legal Effect.**

(i) The Subscriber agrees that the representations, warranties, agreements and covenants set forth in this Subscription and Capital Commitment Agreement shall, in pertinent part, survive the acceptance (or rejection) of this Subscription and Capital Commitment Agreement and any subsequent withdrawal from the Fund by the Subscriber.

(ii) This Subscription and Capital Commitment Agreement shall be binding upon the parties hereto and shall inure to the benefit of such parties as well as those indemnified hereunder.

(iii) In case of any conflict between this Subscription and Capital Commitment Agreement and the Limited Partnership Agreement, this Subscription and Capital Commitment Agreement shall control.

(d) **Exclusions.** In the event that the Subscriber is prevented or restricted by Law or governmental policy from providing indemnification or set-off, being subject to a penalty, waiving trial by jury, consenting to a given venue in the case of a proceeding or agreeing to be subject to equitable relief, such Subscriber shall be excused from such provisions (unless otherwise permitted to be subject thereto).

(e) **Severability.** In the event that any provision of this Subscription and Capital Commitment Agreement is held to be invalid or unenforceable in any jurisdiction, such provision shall be deemed modified to the minimum extent necessary so that such provision, as so modified, shall no longer be held to be invalid or unenforceable. Any such modification, invalidity or unenforceability shall be strictly limited both to such provision and to such jurisdiction, and in each case to no other. Furthermore, in the event of any such modification, invalidity or unenforceability, this Subscription and Capital Commitment Agreement shall be interpreted so as to achieve the intent expressed herein to the greatest extent possible in the jurisdiction in question and otherwise as set forth herein.

(f) Counterparts; Facsimiles.

(i) The Execution Pages of this Subscription and Capital Commitment Agreement may be executed in one or more counterparts, each of which shall, however, together constitute the same document. Facsimiles (as such term is defined in the Limited Partnership Agreement) shall have the same binding force as originals.

(ii) The Subscriber agrees that Declaration is authorized to accept and execute the Execution Pages as well as any instructions given by the Subscriber in original signed form or by facsimile. If instructions are given by facsimile, the Subscriber will promptly courier the original signed form to Declaration and, except as otherwise set forth in **Section 12(d)**, will indemnify the Fund, Declaration, the Declaration Parties and the Placement Agent for any losses and damages suffered by any of them as a result of acting on facsimile instructions rather than instructions in original signed form. The Subscriber further agrees that the Fund, Declaration, any Declaration Party and the Placement Agent are entitled to rely conclusively on, and shall incur no liability in respect of any action taken on the basis of, any notice, consent, request, instruction or other instrument believed in good faith to be genuine or to be signed by properly authorized persons.

(g) Entire Agreement. This Subscription and Capital Commitment Agreement and the Limited Partnership Agreement contain the entire agreement and understanding of the parties hereto relating to the subject matter hereof, and supersede any prior agreements and understandings of the parties relating to such subject matter.

(h) No Waiver.

(i) No failure or delay on the part of the Fund, Declaration, any Declaration Party or the Placement Agent in exercising any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy. Failure on the part of the Fund, Declaration, any Declaration Party or the Placement Agent to challenge any act of the Subscriber or to declare the Subscriber in default with respect to the Fund, Declaration, any Declaration Party or the Placement Agent, irrespective of how long that failure continues, shall not constitute a waiver by the Fund, Declaration, any Declaration Party or the

Placement Agent of their rights with respect to that default until the applicable statute-of-limitations period has run.

(ii) Any waiver granted hereunder must be in writing and shall be valid only in the specific instance in which given.

13. Notices.

(a) All notices or other communications that the Fund or the Subscriber may desire or be required to give hereunder shall be in writing and shall be personally delivered, delivered by facsimile transmission (and, unless waived by the recipient upon receipt of the facsimile, confirmed by delivery in another manner permitted hereunder), mailed by certified or registered mail (postage prepaid), sent by overnight delivery by a reputable private carrier or postal service or transmitted by e-mail with receipt confirmed (and, unless waived by the recipient upon receipt of the e-mail, confirmed by delivery in another manner permitted hereunder). All notices or other communications:

(i) to the Fund shall be sent to the following address: c/o Declaration Management & Research LLC, 1800 Tysons Boulevard, Suite 200, McLean, Virginia 22102; Attention: Lester Guillard, III;

(ii) to the Subscriber shall be sent to the address listed in the Execution Pages attached hereto unless the Subscriber advises the Fund in writing of a subsequent change in address; and

(iii) shall be deemed to have been validly given upon receipt when personally delivered or delivered by a confirmed facsimile transmission or e-mail, on the fifth Business Day after having been mailed by certified or registered mail, or on the next Business Day after being sent for overnight delivery by a reputable private carrier or the postal service.

(b) Any notice period prescribed by this Subscription and Capital Commitment Agreement shall commence on the day that the relevant notice is effective as provided in the preceding paragraph. Such notice period shall include all days, and shall conclude as of the close of business on the day which is the prescribed number of days following the commencement day, or if such day is not a Business Day, as of the close of business on the next succeeding Business Day.

14. Electronic Delivery of Securities Law Required Information.

The Subscriber consents to the delivery of information required by the U.S. securities law via electronic mail and/or Internet website posting and agrees to access the Subscriber's electronic mail account and use Declaration's Internet website to view these important Fund information and investor notices. The Subscriber would like to be notified when new Fund information is placed on Declaration's website by (check one):

electronic mail or regular mail.

The Subscriber does NOT consent to the delivery of the above-referenced information via electronic mail or website posting.

15. State of Georgia Securities Legend. The offering and sale of the Interests are intended to be exempt from registration under the securities laws of all states. Subscribers who reside in the State of Georgia should note the language set forth below, which is required to be included in this Subscription and Capital Commitment Agreement by the securities laws of such State.

FOR GEORGIA INVESTORS ONLY

**THE INTERESTS WILL BE SOLD IN RELIANCE ON THE EXEMPTION FROM
SECURITIES REGISTRATION CONTAINED IN PARAGRAPH 13 OF CODE SECTION
10-5-9 OF THE GEORGIA**

**SECURITIES ACT OF 1973, AND MAY NOT BE SOLD OR TRANSFERRED EXCEPT
IN A TRANSACTION WHICH IS EXEMPT FROM SUCH ACT OR PURSUANT TO AN
EFFECTIVE REGISTRATION UNDER SUCH ACT.**

16. *Items Required from the Subscriber.*

(a) Completed and executed copy of the Execution Pages.

(b) Arrangements for the Capital Contribution(s) to be made to the Fund in such amounts and on such date(s) specified by Declaration in Capital Calls upon not less than ten Business Days' prior notice to the Subscriber, substantially in the form attached as **Schedule A** hereto.

(c) Any information requested by the Fund, Declaration or the Placement Agent.

(d) Completed attached Form W-9.

DMR MORTGAGE OPPORTUNITY FUND LP
EXECUTION PAGES FOR SUBSCRIPTION BY U.S. INVESTORS

Note: The Subscriber should complete these Execution Pages in connection with the Subscriber's Capital Commitment to the Fund.

1. Entity Ownership — Check Form of Organization of Entity Subscriber

Trust ERISA Plan Corporation Limited Partnership or Limited Liability Company

Other Form of Organization — Please Specify _____

(Note: Do not indicate here whether Subscriber is acting in its capacity as a nominee or financial intermediary.)

(Please print all information exactly as you wish it to appear on the Fund records.)

2. Amount of Capital Commitment (minimum: \$5,000,000):

\$ _____

3. Subscriber's Information

Note that the Name of the Subscriber should include only the exact legal name of the legal owner of the Interest. Any account or other reference information should be included in the "Additional Comments" box.

Name of Subscriber: _____

Principal Place of Business

**Address (Provide Legal Address;
No P.O. Boxes)** _____

	Primary Contact	Secondary Contact
Contact Person	T The Primary Contact receives all correspondence and statements and is the contact person for questions concerning this investment.	
Full Name	<input type="checkbox"/> Mr. <input type="checkbox"/> Mrs. <input type="checkbox"/> Ms. <input type="checkbox"/> Dr. <input type="checkbox"/> Other	<input type="checkbox"/> Mr. <input type="checkbox"/> Mrs. <input type="checkbox"/> Ms. <input type="checkbox"/> Dr. <input type="checkbox"/> Other

Mailing Address

**(if different from Principal Place
of Business)** _____

Business Phone

**Business Fax/Email
(if different from below)**

**Home Phone
(Primary Contact)**

**Home Fax/Email
(Primary Contact)
(if different from below)**

Email Address

Tax I.D. Number

Additional Comments

4. “Qualified Client” Status

_____ The Subscriber meets the standards for being categorized as a “qualified client” as set forth in this Subscription and Capital Commitment Agreement.

5. Institutional “Accredited Investor” Status — See Schedule B for more information to assist you in determining whether you are an institutional “accredited investor”

The Subscriber meets the standards for being categorized as an institutional “accredited investor,” as set forth in **Schedule B** [Please check one]:

(a) (b) (c) (d) (e) (f) (g)

The Subscriber agrees to notify Declaration within 30 days of any change in the information set forth above.

6. Internal Revenue Code Certification

Please complete the Form W-9 attached as **Schedule C**.

The Subscriber agrees to notify DMR within 30 days of any change in the information set forth in the attached Form W-9.

The trustee, partner or officer signing on behalf of the Subscriber certifies that he or she has full power and authority to execute this Subscription and Capital Commitment Agreement on behalf of the entity and that investment in the Fund is not prohibited by law or the governing documents of such entity.

7. Anti-Money Laundering Procedures

An authorized officer, director, partner, member, manager or other similar person of the Subscriber hereby certifies that: (i) the Subscriber is in compliance with all applicable anti-money laundering laws and regulations and, if legally required to maintain **anti-money laundering policies (“AML Policies”)** does so as required; (ii) the Subscriber’s AML Policies, if applicable, have been approved by legal counsel or internal compliance personnel reasonably informed concerning anti-money laundering issues; and (iii) the Subscriber has not received a deficiency letter, negative report or any similar determination regarding its compliance with any applicable anti-money laundering laws and regulations and, if applicable, its AML Policies, from a regulator.

8. Standing Instructions

(a) Authorized Signatories

The Subscriber represents that the following is a complete list of the individuals, who are authorized to act on behalf of, and bind, the Subscriber (**each such individual, an “Authorized Signatory”**) in connection with any and all communications and transactions between the Fund (or its representatives) and the Subscriber. The Subscriber acknowledges that the Fund may rely on instructions received from, and representations made by, each Authorized Signatory. The following list may be amended by written notice, signed by an Authorized Signatory and delivered to the Fund, at the address provided herein.

<u>Name</u>	<u>Specimen Signature</u>
_____	_____
_____	_____
_____	_____

Note: In addition to providing specimen signatures as requested above, the Subscriber is required to furnish additional written evidence acceptable to Declaration (which may take the form of an incumbency certificate, written resolutions, a power of attorney or other similar proof) of each Authorized Signatory’s authority to act on behalf of, and bind, the Subscriber.

(b) Standing Wire Instructions:

The Subscriber agrees that, subject to applicable anti-money laundering regulations and procedures, the Fund has discretion to wire transfer all or any funds payable to the Subscriber (including Distributions) to the following account of the Subscriber:

Bank Name: _____
Bank Address: _____

ABA, SWIFT or CHIPS No.: _____
Account Name: _____
Account No.: _____
For Further Credit: _____
Reference: _____

If the bank identified immediately above is not located in the United States or another FATF Country,³ please provide the documentation requested under Section 8(d) of these Execution Pages and contact Declaration to determine any additional information that may be required from the Subscriber.

³ A “FATF Country” is a member country of the Financial Action Task Force on Money Laundering. As of September 1, 2008, the FATF Countries are: Argentina, Australia, Austria, Belgium, Brazil, Canada, China, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, Ireland, Italy, Japan, Luxembourg, Mexico, Kingdom of the Netherlands, New Zealand, Norway, Portugal, Russian Federation, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. For a current list of FATF Countries see <http://www.fatf-gafi.org>.

The wire instructions provided above may be amended by written notice, signed by an Authorized Signatory and delivered to the Fund at the address provided herein.

(c) Anti-Money Laundering Confirmation:

Is the Subscriber a customer of the bank identified immediately above?

Yes No

If the answer is "No," please provide the documentation requested under Section 8(d) of these Execution Pages and contact Declaration for additional information that may be required from the Subscriber.

Is the Subscriber's subscription payment to be made by bank-to-bank transfer from an account **other than** the account detailed above:

Yes No

If the answer is "Yes," please provide below details of the bank from which the Subscriber's subscription payment will be transferred:

Bank Name: _____
Bank Address: _____
ABA, SWIFT or CHIPS No.: _____
Account Name: _____
Account No.: _____
For Further Credit: _____
Reference: _____

If the bank identified immediately above is not located in the United States or another FATF Country, please provide the documentation requested under Section 8(d) of these Execution Pages and contact Declaration for any additional information that may be required from the Subscriber.

Is the Subscriber a customer of the bank identified immediately above?

Yes No

If the answer is "No," please contact Declaration for additional information that may be required from the Subscriber.

(d) Documentation:

If the Subscriber is not a customer of the bank(s) identified in Sections 8(b) or 8(c) of these Execution Pages or the bank(s) identified in Sections 8(b) or 8(c) of these Execution Pages are not located in a FATF Country, please provide copies of the following documents for each Subscriber:

Entity Documentation

- A copy of any document authorizing or governing its investment policies (*e.g.*, resolutions of the board of directors);

AND

- If a corporation: a copy of its articles of incorporation and by-laws;
- If a partnership, limited partnership or limited liability partnership: a copy of its formation documents, partnership agreement and/or other governing agreement;
- If a limited liability company: a copy of its articles of organization and operating agreement;
- If a trust: a copy of its declaration of trust or other governing instrument; or
- If any other type of entity: a copy of its formation documents and governing agreements.

Authorized Signatory Documentation. For each Authorized Signatory listed in Section 8(a) of these Execution Pages:

- Document confirming authorization to effect transactions on behalf of the Subscriber (*e.g.*, board resolutions, power of attorney or certification)

(e) Disclosure Authorization:

By executing this Subscription and Capital Commitment Agreement, the Subscriber authorizes the disclosure of information regarding the Subscriber's account to the Fund, Declaration, any Declaration Party and/or the Placement Agent as well as their respective representatives and legal counsel, as well as to any governmental authority, self-regulatory organization, or to any other Person, to the extent required by law, regulation or any legal procedure.

9. Investor Categories

Please check the box below that best describes the nature (and not the corporate structure) of the Subscriber's business.

- | | |
|---|--|
| <input type="checkbox"/> A "fund of funds" that permits redemptions | <input type="checkbox"/> A commercial bank, investment bank or other financial institution that is not an insurance company* |
| <input type="checkbox"/> A "fund of funds" that does not permit redemptions | <input type="checkbox"/> A supranational entity |
| <input type="checkbox"/> An insurance company* | <input type="checkbox"/> A governmental entity |
| <input type="checkbox"/> An endowment or foundation | <input type="checkbox"/> Any investment by or for the benefit of a natural person, or the family of a natural person |
| <input type="checkbox"/> An employee benefit plan | <input type="checkbox"/> Other (please specify): _____ |
| <input type="checkbox"/> A special purpose vehicle (structured products) | |

* Other than a fund of funds managed by such listed entity

10. Optional Limitation on Voting Rights

The Subscriber elects to have the maximum Fund Percentage for voting purposes attributable to its Interest limited to no more than the following:

___%

IF THE PERCENTAGE LISTED ABOVE IS LEFT BLANK, THERE WILL BE NO LIMIT ON THE SUBSCRIBER'S FUND PERCENTAGE FOR VOTING PURPOSES.

NO CAPITAL COMMITMENTS SHOULD BE SENT BEFORE THE SUBSCRIBER IS NOTIFIED THAT THIS SUBSCRIPTION AND CAPITAL COMMITMENT AGREEMENT HAS BEEN ACCEPTED.

DMR Mortgage Opportunity Fund LP
Subscription and Capital Commitment Agreement
For U.S. investors only

Execution Pages-6

IN WITNESS WHEREOF, the undersigned have hereunto duly set their hands by their representatives thereto duly authorized, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound.

Entity Subscription

(Name of Subscriber)

Dated _____, _____

By _____
Title:

(Trustee, partner or authorized corporate officer)

DMR MORTGAGE OPPORTUNITY FUND LP
By: **Declaration Management & Research LLC**
its General Partner

By: _____
Name:
Title:

**Name of Trustees or Other Fiduciaries Exercising Investment
Discretion with Respect to Employee Benefit Plan or Trust**

<u>Signature</u>	<u>Printed Name</u>	<u>Title</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____

DMR Mortgage Opportunity Fund LP
Subscription and Capital Commitment Agreement
For U.S. investors only

Execution Pages-7

CAPITAL CALL NOTICE

TO: [investor name]

FROM: Declaration Management & Research LLC, as general partner (“General Partner”) of DMR Mortgage Opportunity Fund LP (the “Fund”)

DATE: [insert date of notice]

SUBJECT: Notice of Capital Contribution to the Fund

Pursuant to Section 3.1 of the Second Amended and Restated Limited Partnership Agreement of the Fund, dated as of September 22, 2008 (the “Limited Partnership Agreement”), Declaration is hereby requesting that you, as a Limited Partner of the Fund, make a Capital Contribution to the Fund as described below (all capitalized terms used herein but not defined shall have the meanings assigned to them in the Limited Partnership Agreement). Your required Capital Contribution is as follows:

Drawdown Date: []

Current Undrawn Capital Commitment: []

Capital Contribution Requested hereby: [] [([] % of Capital Commitment)]

After Funding, Remaining Unfunded Capital Commitment: []

This Capital Contribution is due on the Drawdown Date specified above. You must make arrangements for this Capital Contribution to be satisfied by wire transfer to the Fund’s bank account by no later than [8:00] a.m., New York time, on the Drawdown Date in accordance with the following wire instructions:

Wire Instructions

Bank Name: LaSalle Bank National Association
ABA Number: 071000505
Account Name: Trust GL
Account Number: 2090067
Further Credit to: ACCT# 725402.2
RE: DMR Mortgage Opportunity Fund LP Sub/Red - *(insert name of investor)*
Attn: Kateri Malecek (312) 992-1136

If you have any questions, please contact Lester Guillard, III.
 Tel: (703) 749-8263, Fax: (703) 749-8225, Email: lguillard@declaration.com

DMR MORTGAGE OPPORTUNITY FUND LP
c/o Declaration Management & Research LLC
1800 Tysons Boulevard, Suite 200
McLean, Virginia 22102

DMR Mortgage Opportunity Fund LP
 Subscription and Capital Commitment Agreement
 For U.S. investors only

INSTITUTIONAL ACCREDITED INVESTOR STATUS

THE SUBSCRIBER WILL BE REQUIRED TO INDICATE ON THE EXECUTION PAGES WHETHER THE SUBSCRIBER IS AN INSTITUTIONAL “ACCREDITED INVESTOR,” AS DEFINED IN REGULATION D UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”).

CORPORATIONS, PARTNERSHIPS OR LIMITED LIABILITY COMPANIES

a. The Subscriber has total assets in excess of \$5,000,000 and was not formed for the specific purpose of investing in the Fund.

or

b. All of the equity owners, unit owners and participants of the Subscriber are Accredited Investors.

TRUSTS

c. The Subscriber has total assets in excess of \$5,000,000 and was not formed for the specific purpose of investing in the Fund.

or

d. The Subscriber is a bank as defined in Section 3(a)(2) of the Securities Act, is acting in its fiduciary capacity as trustee and is subscribing for the Interest on behalf of a trust which qualifies as an Accredited Investor. (“Bank” is defined in Section 3(a)(2) of the Securities Act as “any national bank, or any banking institution organized under the laws of any State . . . the business of which is substantially confined to banking and is supervised by the State or territorial banking commission or similar official.”)

or

e. The Subscriber is a revocable trust which may be amended or revoked at any time by the grantors thereof, and all of the grantors are Accredited Investors.

BANKS

f. The Subscriber is a bank as defined in Section 3(a)(2) of the Securities Act acting in its individual capacity.

INSURANCE COMPANIES

g. The Subscriber is an insurance company as defined in Section 2(13) of the Securities Act acting in its individual capacity. (“Insurance company” is defined in Section 2(13) of the Securities Act as “a company which is organized as an insurance company whose primary and predominant business activity is the writing of insurance or the reinsuring of risks underwritten by insurance companies, and which is subject to supervision by the insurance commissioner, or a similar official or agency, of a State.”)

* * *

[See attached Form W-9]

DMR Mortgage Opportunity Fund LP
Subscription and Capital Commitment Agreement
For U.S. investors only

Schedule C-1

DMR MORTGAGE OPPORTUNITY FUND LP

DECLARATION MANAGEMENT & RESEARCH LLC

AMENDED AND RESTATED INVESTMENT ADVISORY AGREEMENT

DATED AS OF _____, 2008

**AMENDED AND RESTATED INVESTMENT ADVISORY AGREEMENT
DATED AS OF _____, 2008**

by and between

**DMR MORTGAGE OPPORTUNITY FUND LP
and
DECLARATION MANAGEMENT & RESEARCH LLC**

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DMR MORTGAGE OPPORTUNITY FUND LP
and
DECLARATION MANAGEMENT & RESEARCH LLC

AMENDED AND RESTATED INVESTMENT ADVISORY AGREEMENT

This Amended and Restated Investment Advisory Agreement (the “**Agreement**”) is made as of _____, 2008 by and between **DMR MORTGAGE OPPORTUNITY FUND LP** (the “**Fund**”), a Delaware limited partnership whose principal office is c/o Declaration Management & Research LLC, 1800 Tysons Boulevard, Suite 200, McLean, Virginia 22102, and **DECLARATION MANAGEMENT & RESEARCH LLC** (“**Declaration**”), a Delaware limited liability company whose principal office is 1800 Tysons Boulevard, Suite 200, McLean, Virginia 22102. This Agreement supercedes the Investment Advisory Agreement dated as of May 15, 2008 by and between the Fund and Declaration (the “**Original Agreement**”), which shall be of no further force or effect.

Capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed to such terms in the Second Amended and Restated Limited Partnership Agreement of the Fund dated as of September 22, 2008 (the “**Limited Partnership Agreement**”).

RECITALS:

WHEREAS, the Fund shall register with the U.S. Securities and Exchange Commission (the “**SEC**”) as a closed-end, non-diversified management investment company (a “**CNMIC**”) under the Investment Company Act of 1940, as amended (the “**1940 Act**”);

WHEREAS, Declaration is registered with the SEC as an investment adviser under the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”);

WHEREAS, the Fund desires to retain Declaration so that it will render investment advisory services to the Fund in the manner and on the terms and conditions hereinafter set forth; and

WHEREAS, Declaration is willing to render such services and/or engage others to render such services to the Fund, subject to the supervision of the Fund’s board of directors (the “**Board**”).

NOW THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties hereto agree as follows:

1. Appointment of Declaration as Investment Adviser.

- (a) The Fund hereby appoints Declaration to act as the Fund’s investment adviser (in such capacity, the “**Investment Adviser**”) for the period and on the terms and

conditions set forth in this Agreement. Declaration hereby accepts such appointment and agrees to render the services and to assume the obligations set forth in this Agreement commencing on its effective date for the compensation herein provided.

- (b) In performing its duties hereunder, the Investment Adviser shall comply with (i) the 1940 Act and all rules and regulations thereunder, (ii) all other applicable federal and state laws and regulations, (iii) the guidelines and directions and any applicable procedures adopted by the Board, and (iv) the fundamental policies and investment restrictions described in the Fund's Form N-2 (as amended from time to time, the "**Form N-2**"), as filed with the SEC and as set forth in the investment guidelines attached as a Schedule hereto (collectively, the "**CNMIC Restrictions**").

- (c) Under the direction of the Investment Adviser, and subject to the supervision of the Board, the Fund may engage, directly and indirectly, in all aspects of investing and trading as are permissible for a CNMIC and consistent with the CNMIC Restrictions. The Fund's investment objective is to provide investors with attractive returns through long-biased opportunistic investing in stressed, distressed and other undervalued mortgage-backed securities and related fixed-income assets.

2. Power and Authority of the Investment Adviser.

- (a) Without limiting the generality of the powers conferred upon it by **Section 1**, and subject to the CNMIC Restrictions, the Investment Adviser is expressly authorized and directed by the Board to do the following for or on behalf and in the name of the Fund:

- (i) make all investment and trading decisions with respect to the acquisition, retention and disposition of Investment Assets, and all other manner of investments, including exercising and enforcing any right of the Fund with respect to any Investment Asset;

- (ii) assist the Fund as it may reasonably request in the conduct of the Fund's business, including oral and written research, analysis, advice, statistical and economic data, judgments regarding individual investments, general economic conditions and trends and long-range investment policies;

- (iii) determine or recommend the Investment Assets and techniques that the Fund will purchase, sell, enter into, use, or provide in an on-going evaluation of the Fund's portfolio;

- (iv) furnish to or place at the disposal of the Fund information, evaluations, analyses, and opinions formulated or obtained by the Investment Adviser in the discharge of its duties as the Fund may, from time to time reasonably request, and maintain or cause to be maintained for the Fund all books, records, reports, and any other information required under the 1940 Act, to the extent that such books, records, reports, and other

information are not maintained or furnished by the custodian, transfer agent, administrator, sub-administrator, or other agent of the Fund;

(v) furnish at the Investment Adviser's expense for the use of the Fund such office space, telephone, utilities, and facilities as the Fund may require for its reasonable needs and to furnish at the Investment Adviser's expense clerical services related to research, statistical and investment work;

(vi) incur all manner of obligations as well as stand surety for, guarantee, support or secure the obligations of any other Person;

(vii) own, sell, assign or otherwise dispose of any personal property and liabilities on such terms and conditions as the Investment Adviser may determine;

(viii) open, maintain and close one or more accounts (including bank, brokerage, margin and clearing accounts) and enter into arrangements to self-clear transactions with financial and commercial institutions (including clearing and depository institutions);

(ix) advance, deposit or lend cash, Investment Assets or otherwise provide any other form of financing or leverage on a secured or unsecured, as well as on a segregated or non-segregated, basis;

(x) negotiate and enter into all manner of derivatives (including swaps) and other investment, financial and risk management instruments (whether or not exchange-traded), as well as registration rights, placement, selling and financing agreements, private placement and securities purchase agreements, shareholders' agreements, structured products, repurchase agreements, reverse repurchase agreements, securities lending and hypothecation agreements, counterparty agreements and all other forms of investment, financial and commercial agreements, contracts and undertakings;

(xi) engage the services of such agents, brokers, consultants, advisors, employees and other service providers as the Investment Adviser deems necessary or advisable;

(xii) cause the Fund to comply with the investment guidelines attached as a Schedule hereto;

(xiii) provide assistance to the Administrator/Custodian and the Board in calculating the "Invested Capital," the "Adjustment Factor" and the "Net Asset Value;"

(xiv) assist the Fund in maintaining the books of account of the Fund and, in cooperation with the Fund's regular auditors, entering therein all transactions, matters and things relating to the Fund's business as are

usually entered into the books of account kept by persons engaged in businesses such as that engaged in by the Fund;

(xv) prepare, execute, file, and deliver any documents related to any of the foregoing; and

(xvi) generally, to act or decline to act for the Fund in all matters relating to the trading and investing of the Investment Assets.

(b) The Fund may not incur any indebtedness for borrowed money (but may invest in derivatives which have imbedded leverage), and the Investment Adviser shall use reasonable best efforts to ensure that the Fund's investing and trading will not generate "unrelated business taxable income" for tax-exempt investors in the Fund.

(c) The Investment Adviser shall use reasonable best efforts to liquidate all of the Fund's Investment Assets prior to the end of the Distribution Period.

3. Dealings with and by Declaration Parties.

(a) Without in any respect limiting the effect of the "Key Person Event" provisions of **Section 3.5** of the Limited Partnership Agreement, no Declaration Party shall be required to devote full time to the affairs of the Fund, but each shall devote such time as each believes may reasonably be required to perform such Person's obligations under this Agreement and under the 1940 Act.

(b) To the extent that at law or in equity the Investment Adviser has duties (including fiduciary duties) and liabilities relating to the Fund or to any other Person bound by or acting under this Agreement, it shall not be liable to the Fund 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 Investment Adviser otherwise existing at law or in equity, are agreed by the Fund to replace the other duties and liabilities of the Investment Adviser.

(c) Nothing in this Agreement shall limit the right of any Declaration Party to organize, engage in or possess an interest in, directly or indirectly, other business ventures or investments of any nature or description for its own account (including engaging in transactions involving investment assets owned by, or of the same type owned by, the Fund), independently or with others, including any investment in any aspect of the operation, administration, trading or investment business or any other business engaged in by the Fund, and the Fund shall not have any rights in or to such investment or independent venture or the income or profits derived therefrom.

(d) Declaration Parties have, and in the future may have, other clients, including funds or other debt obligation vehicles, which invest, direct or indirectly, in debt obligations and other securities that would be appropriate as an investment for the Fund and have no duty in making such investments to act in a way that is favorable to the Fund. Such investments may be different from those made on

behalf of the Fund. Declaration Parties may have economic interests in or other relationships with issuers in whose obligations or securities the Fund may invest. In particular, Declaration Parties may make or hold for client accounts an investment in an issuer's securities that may be *pari passu*, senior or junior in ranking to an investment in such issuer's securities made or held by the Fund or in which partners, security holders, officers, directors, agents or employees of Declaration Parties serve on boards of directors or otherwise have on-going relationships. Each of such ownership and other relationships may result in securities laws restrictions on transactions in such securities by the Fund and otherwise create conflicts of interest for the Fund. In such instances, Declaration Parties may in their discretion make investment recommendations and decisions that may be the same as or different from those made with respect to the Fund's investments.

- (e) Any Declaration Party and any of its Affiliates may invest and trade for their personal accounts.
- (f) Any Declaration Party may invest and trade for the Fund as well as for any other Declaration Client accounts.
- (g) Any Declaration Party may operate and administer Declaration Client accounts, render operational, administrative, trading, investment advisory and other services to other Persons with respect to investment assets which advice is identical, dissimilar or contrary to the advice that the Investment Adviser provides to the Fund.
- (h) The Investment Adviser may sponsor additional "hedge funds" or "private equity funds" as well as more traditional products which compete with the Fund both in the markets and for Declaration's resources.
- (i) Declaration Parties, in connection with their other business activities, may acquire material non-public confidential information that may restrict the Investment Adviser from purchasing securities or selling securities for itself or its clients (including the Fund) or otherwise using such information for the benefit of its clients or itself.
- (j) The Investment Adviser may, subject to and to the extent permitted by the 1940 Act and any other applicable Law, cause the Fund, and any other Declaration Party or Declaration Client, to engage in all manner of transactions with any other Declaration Party, Declaration Client or the Fund, or any Affiliate of any of the foregoing.
- (k) Declaration Parties, by reason of their other business activities, may cause the Investment Adviser not to be able to, or to determine not to, initiate a transaction for the Fund that the Investment Adviser would otherwise have initiated for the Fund.

4. Limitation of Liability and Indemnification of the Declaration Parties.

(a) No Declaration Party shall be personally liable for the return or payment of all or any portion of the capital or profits allocable to the Fund, any Limited Partner or any former Limited Partner, it being expressly agreed that any return of capital or payment of profits made pursuant to this Agreement, the Limited Partnership Agreement and/or the Subscription and Capital Commitment Agreement (as each may be amended or supplemented from time to time, the “**Material Contracts**”) shall be made solely from the assets of the Fund (which shall not include any right of contribution from any Declaration Party).

(b) No Declaration Party shall have any liability to the Fund, any Limited Partner or any former Limited Partner for: (i) any act performed, or the omission to perform any act, within the scope of the power and authority conferred on Declaration by any Material Contract, except by reason of acts or omissions of a Declaration Party Finally Determined to constitute fraud, willful misfeasance, bad faith, gross negligence or reckless disregard of its duties (or as otherwise required by Law); (ii) the termination of this Agreement pursuant to the terms hereof; (iii) the performance by a Declaration Party of, or the omission by a Declaration Party to perform, any act which such Declaration Party reasonably believed to be consistent with the advice of attorneys, accountants or other professional advisers to the Fund or to such Declaration Party with respect to matters relating to the Fund; (iv) the conduct of any Person selected or engaged and monitored by such Declaration Party with due care; (v) any tax imposed on the Fund or the Limited Partners in any jurisdiction, or any costs incurred in respect of a tax audit or similar procedure; or (vi) any tax position taken by Declaration (to the extent that Declaration is authorized to take any relevant tax position) and which was not clearly contrary to Law when taken.

(c) No Independent Director shall have any liability to the Fund, the General Partner, any Limited Partner or any former Limited Partner for conduct Finally Determined to have constituted a violation of Law, provided that such Independent Director reasonably believed such conduct to be lawful and in the interest of the Fund at the time of such conduct.

(d) The Fund shall indemnify, defend, and hold harmless each Declaration Party and, as Declaration, subject to the Board’s ultimate authority, may determine, the agents, advisors and consultants of Declaration (each also an “**Indemnified Party**”), from and against any loss, cost, expense, liability, fees (including attorneys’ fees and expenses) and damages suffered or sustained by such Indemnified Party by reason of any acts or omissions, or alleged acts or omissions, arising out of the activities of an Indemnified Party, reasonably believed by such Indemnified Party to be on behalf of the Fund or in furtherance of the interests of the Fund, provided that those acts or omissions are not Finally Determined to constitute conduct for which such Indemnified Party would be subject to liability under the standard of liability set forth in this **Section 4**.

- (e) An Indemnified Party shall be entitled to receive advances from the Fund to cover the cost of defending any claim or action against such Indemnified Party; provided, that such Indemnified Party enters into a written agreement that all such advances shall be repaid to the Fund (without interest) if it is Finally Determined that such Indemnified Party is not entitled to indemnity under **Section 4(d)**, and otherwise complies with the requirements of the 1940 Act.
- (f) The rights of an Indemnified Party to indemnification shall survive the winding-up of the Fund and the death, withdrawal, declaration of legal incapacity, dissolution, winding-up or Bankruptcy of such Indemnified Party.
- (g) None of the various exculpatory or indemnification provisions of this **Section 4** are to be interpreted as in any respect resulting in the Fund waiving any rights or claims which the Fund may have under any federal or state securities laws.

5. Other Activities of the Declaration Parties.

(a) Declaration Parties may have investments of their own, and a Declaration Party may be acting as an operator, administrator, trading advisor or investment manager for others. The Declaration Parties may be or become associated with other investment entities and engage in investment management for others. Except to the extent necessary to perform the Investment Adviser's obligations hereunder, nothing herein shall be deemed to limit or restrict the right of any Declaration Party to engage in, or to devote time and attention to the management of any other business, whether of a similar or dissimilar nature, or to render services of any kind to any other Person. For the avoidance of doubt, Declaration Parties may engage in all activities and transactions contemplated by or described in the Private Placement Memorandum.

(b) (i) The Declaration Parties (i) may engage in or possess an interest, direct or indirect, in any business venture of any nature or description (including other investment funds) for their own respective accounts, independently or with others, including, without limitation, any business, industry or activity in which the Fund may be interested in investing or may also have investments, and (ii) may do so without any obligation to report the same to the Fund or to afford the Fund any opportunity to participate therein. The Fund shall not have any rights in or to any such independent venture or investment in any of the revenues or profits derived therefrom.

(ii) Among Declaration Clients, including the Fund, the Investment Adviser shall allocate assets to each Declaration Client account in light of its investment objectives and guidelines, cash position and other factors. It is Declaration's policy (i) to allocate investment opportunities to the extent practicable to the accounts of Declaration Clients over time in a manner that Declaration believes is fair and equitable and (ii) not to intentionally favor or disfavor any Declaration Client.

(c) From time to time, a Declaration Client may invest in, or withdraw an investment from, an investment in which the Fund is invested, is withdrawing its investment from, or is not invested. In addition, the Investment Adviser may recommend that the Fund purchase or sell an investment that is being sold or purchased by another Declaration Client or otherwise give advice or take action with regard to other Declaration Clients that differs from the advice given with respect, or action taken with regard, to the Fund.

6. Brokerage, Dealing and Other Counterparty Contracts; Custody.

(a) The Investment Adviser is authorized to negotiate all brokerage, dealing and other counterparty agreements between the Fund and its respective brokers, dealers and counterparties, as well as all other agreements relating to the Fund's investing, including agreements with Declaration Parties. The Investment Adviser, absent bad faith, shall have no liability for the terms of any such agreement or for the actions or omissions for any such broker, dealer or counterparty.

(b) The Investment Adviser will use reasonable efforts to obtain the best net prices and execution for all orders placed with respect to the Fund, considering all circumstances that are relevant in its reasonable determination. The Investment Adviser is not obligated to select a broker or dealer solely on the basis of the rate of commission or the spread it offers. Subject to the objective of obtaining best prices and execution, the Investment Adviser may take into consideration the full range and quality of services furnished by brokers and dealers.

(c) Declaration may aggregate sales and purchase orders of securities placed for the Fund with similar orders being made simultaneously for other clients, including affiliated clients, where Declaration believes this to be appropriate, in the best interest of the client accounts (including the Fund), and consistent with applicable legal requirements. It is Declaration's policy to make all allocations of aggregated trades among participating accounts on a fair and equitable basis over time, to the extent practicable, without favoring any account or type of account or client over another over a period of time. In addition, in making its investment decisions for each account, Declaration will use its best judgment on behalf of each client taking into consideration the investment guidelines for the account and other factors. It is Declaration's policy to allocate investment opportunities to the extent practicable to each account over time in a manner that Declaration believes is fair and equitable to each client account.

(d) The Investment Adviser assumes no responsibility for the actions or omissions of any broker or dealer selected by Investment Adviser in good faith.

7. Compensation; Expenses.

(a) As compensation for the services performed pursuant to this Agreement, the Investment Adviser shall receive a monthly management fee (the "**Management Fee**") in the amount and calculated in the manner set forth in the Management Fee Calculation Schedule.

- (b) No Management Fee will be paid to Declaration by the Fund after the end of the Distribution Period.
- (c) In the event that Declaration advances costs incurred on behalf of the Fund, Declaration shall be fully entitled to be reimbursed therefor.
- The Fund will bear its operating costs (including, but not limited to, administrative, custody, transfer, escrow, filing, printing, consulting, accounting, tax, audit, insurance, regulatory and legal fees and other expenses), extraordinary expenses, as well as any other expenses set forth in the Limited Partnership Agreement or as agreed by the Board from time to time. The Fund will also bear its brokerage commissions, “broken deal” costs, due diligence expenses and other transaction fees in connection with the acquisition and disposition of its positions as well as custodian fees for Fund assets held in cash or securities at various banks, broker-dealers and other financial institutions, except that the fees of John Hancock Distributors LLC are paid by Declaration. The Investment Adviser does not use “soft dollar” arrangements.
- (d)
- (e) The Fund will not pay any internal operating costs (*e.g.*, salaries, bonuses or office rent) of any Declaration Party.
- (f) All matters concerning calculation of the Management Fee shall be determined by the General Partner subject to the ultimate authority of the Board unless specifically and expressly otherwise provided for by the CNMIC Restrictions or other applicable Law. Any such determinations and allocations shall be final and binding on the Fund and all of the Limited Partners.
- (g) Declaration, in its capacity as General Partner of the Fund, will be allocated and receive Carried Interest distributions pursuant to **Sections 2.11** and **6.2(b)** of the Limited Partnership Agreement. Declaration will not receive Carried Interest distributions after the scheduled date of the termination or expiration of this Agreement.

8. Accounting and Other Information.

- (a) The Fund shall instruct its brokers and counterparties to send confirmations of all trades executed for the Fund’s account to the Investment Adviser.
- (b) The Investment Adviser shall furnish to the Fund or its representative such information concerning its discharge of its obligations hereunder as the Fund may reasonably request; provided, that the Investment Adviser need not disclose any information which it determines to be the Investment Adviser’s proprietary information or legally privileged.
- (c) The Investment Adviser shall maintain all records relating to its management of the Fund’s Investment Assets as may be required by Law. At the reasonable request of the Board, the Investment Adviser shall give the Fund (at the expense of the Fund) reasonable access to such documents and shall permit the Fund and its representatives to copy such documents; provided, that the Investment Adviser

need not disclose any information which it determines to be the Investment Adviser's proprietary information or legally privileged.

9. Independent Contractor.

For all purposes of this Agreement, Declaration shall be an independent contractor and not an employee or dependent agent of the Fund. Nothing in this Agreement shall be construed as making the Fund a partner or co-venturer with any Declaration Party or Declaration Client. Except as provided in this Agreement, any other agreements authorized by the Limited Partnership Agreement and/or the Limited Partnership Agreement itself, Declaration shall have no authority to bind, obligate or represent the Fund. This Agreement (together with the other Material Contracts) establishes and limits by its terms Declaration's obligations to the Fund.

10. Term; Termination; Renewal.

- (a) (i) This Agreement shall remain in effect until the date which is two years from the day and date first written above, and shall continue in effect year to year thereafter, but only so long as such continuance is specifically approved at least annually by the affirmative vote of: (i) a majority of the members of the Fund's Directors who are not parties to this Agreement or interested persons (as defined in the 1940 Act) of any party to this Agreement, or of any entity regularly furnishing investment advisory services with respect to the Fund pursuant to an agreement with any party to this Agreement, cast in person at a meeting called for the purpose of voting on such approval; and (ii) a majority of the Fund's Board of Directors or the holders of a majority (as defined in the 1940 Act) of the outstanding voting securities of the Fund.
- (ii) This Agreement may nevertheless be terminated at any time, on 60 days' written notice, by the Fund's Board, by vote of holders of a majority of the outstanding voting securities of the Fund, or by the Investment Adviser.
- (iii) The Limited Partnership Agreement requires Declaration, other Declaration Parties and Declaration Clients to waive their respective voting rights regarding termination or continuance of this Agreement.
- (b) This Agreement shall automatically be terminated in the event of its "assignment" for purposes of the Advisers Act or the 1940 Act, as provided in **Section 13** (unless consent to such assignment has been obtained in accordance with **Section 13(a)**).
- (c) The expiration or termination of this Agreement shall in no respect extinguish the obligations of the Fund for the payment of fees and expenses in respect of services rendered by the Investment Adviser prior to the effective date of such expiration or termination.

11. Amendment.

This Agreement may not be amended except by the written consent of both the Fund and the Investment Adviser.

12. Notices.

Unless otherwise specified in this Agreement, all notices or other communications that any party to this Agreement may desire or be required to give hereunder shall be in writing and shall be personally delivered, delivered by facsimile, e-mail, digital image file or any other electronic form (collectively, “**facsimile**”), in each case with confirmed receipt of the transmission (and, unless waived by the recipient upon such receipt, confirmed by delivery in another manner permitted hereunder), mailed by certified or registered mail (postage prepaid), sent by overnight delivery by a reputable private carrier (receipt confirmed) or the postal service (return receipt requested) addressed:

if to the Fund to:

DMR MORTGAGE OPPORTUNITY FUND LP
c/o Declaration Management & Research LLC
1800 Tysons Boulevard, Suite 200
McLean, Virginia 22102

if to Declaration to:

DECLARATION MANAGEMENT & RESEARCH LLC
1800 Tysons Boulevard, Suite 200
McLean, Virginia 22102
Attention: Lester Guillard, III

with a copy to:

DECLARATION MANAGEMENT & RESEARCH LLC
197 Clarendon Street C-03-16
Boston, MA 02116
Attention: Edmund H. Price

All notices or other communications shall be deemed to have been validly given upon receipt when personally delivered or delivered by a confirmed facsimile, on the fifth Business Day after having been mailed by certified or registered mail, or on the next Business Day after being sent for overnight delivery by a reputable private carrier or the postal service, as the case may be.

Any notice period prescribed by this Agreement shall commence on the day that the relevant notice is effective as provided in this **Section 12**. Such notice period shall include all days, and shall conclude as of the close of business on the day which is the prescribed number of days following the commencement day, or if such day is not a Business Day, as of the close of business on the next succeeding Business Day.

13. Assignment and Delegation.

(a) Neither the Fund nor the Investment Adviser may assign (*i.e.*, any change in control considered an “assignment” for purposes of the Advisers Act or the 1940 Act) any of its rights or delegate any of its obligations and/or power and authority under this Agreement without the prior written consent of the other party hereto; provided, however, that the Investment Adviser may, with the consent of the Board and subject to applicable Law, delegate all or any portion of its obligations, power and authority hereunder to any Declaration Party or Declaration Parties at any time, in which case Declaration shall promptly so notify the Limited Partners; and provided further, that the successors to the Investment Adviser’s business shall be entitled to the assignment of the Investment Adviser’s rights hereunder, to the full extent and subject to the procedures required by the Advisers Act and the 1940 Act.

(b) This Agreement shall automatically be terminated in the event of its “assignment” for purposes of the Advisers Act or the 1940 Act unless consent to such assignment has been obtained in accordance with **Section 13(a)**.

14. Counterparts; Facsimiles.

This Agreement may be executed in one or more counterparts, each of which shall, however, together constitute one and the same document. Facsimile signature pages shall have the same binding force and effect as original copies.

15. No Waiver.

(a) Unless specifically authorized to do so by this Agreement, the Investment Adviser may not waive any term hereof. To the limited extent that the Investment Adviser is authorized to waive any term of this Agreement, no failure or delay on the part of the Investment Adviser in exercising any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy. Failure on the part of the Fund or the Investment Adviser to complain of any act of the other or to declare the other in default under this Agreement, irrespective of how long such failure continues, shall not constitute a waiver by the Fund or the Investment Adviser of its rights with respect to such default until the applicable statute-of-limitations period has run.

(b) Any waiver granted hereunder must be in writing and shall be valid only in the specific instance in which given.

16. Right of Third Parties to Rely on the Power and Authority of the Investment Adviser.

The acts of the Investment Adviser relating to the subject matter of this Agreement in carrying out the business of the Fund may be relied upon by any third party as binding upon the Fund.

17. Rules of Interpretation.

In this Agreement, unless inconsistent with the context or the contrary intention appears, a reference to:

- (a) “May” shall be construed as permissive;
- (b) A “month” or a “quarter” means a calendar month or quarter (as the case may be);
- (c) A “notice” means written notice unless otherwise stated;
- (d) “Shall” shall be construed as imperative;
- (e) The masculine includes the feminine and neuter respectively;
- (f) Writing includes typewriting, printing, lithography, photography and other modes of representing or reproducing words in a legible and non-transitory form;
- (g) Any reference to a Law, agreement or a document shall be deemed also to refer to any amendment, supplement or replacement thereof;
- (h) Whenever this Agreement refers to a number of days, such number shall refer to calendar days unless such reference specifies Business Days;
- (i) The term “and/or” is used herein to mean both “and” as well as “or.” The use of “and/or” in certain contexts in no respects qualifies or modifies the use of the terms “and” or “or” in others. The term “or” shall not be interpreted to be exclusive, and the term “and” shall not be interpreted to require the conjunctive — in each case, unless the context otherwise requires;
- (j) The table of contents to and the headings in this Agreement have been inserted for convenience of reference only, are not part of this Agreement and shall not be used in construing this Agreement;
- (k) The terms “include” and “including” are to be construed as non-exclusive (so that, by way of example and for the avoidance of doubt, “including” shall mean “including without limitation”);
- (l) Unless the context of this Agreement otherwise requires (i) words using singular or plural number also include the plural or singular number, respectively, (ii) the terms “hereof,” herein,” “hereby” and derivative or similar words refer to the entire Agreement, (iii) the masculine gender shall include the feminine and neuter, (iv) any reference to a Law, agreement or a document shall be deemed to also refer to any amendment, supplement or replacement thereof, and (v) whenever this Agreement refers to a number of days, such number shall refer to calendar days unless such reference specifies Business Days.
- (m) Terms defined in this Agreement by reference to any other agreement, document or instrument shall have the meanings assigned to them in such agreement,

document or instrument whether or not such agreement, document or instrument is then in effect.

(n) No provision of this Agreement shall be construed in favor of or against any Person by reason of the extent to which any such Person, its Affiliates, or their respective employees or counsel participated in the drafting thereof; and

(o) In the event of any inconsistency between the provisions of this Agreement and of the Limited Partnership Agreement, the Directors shall determine which provisions shall control (all Limited Partners having expressly agreed to the terms of both this Agreement and the Limited Partnership Agreement).

14. Binding Effect; Benefit.

This Agreement shall be binding upon and shall inure to the benefit of the Fund, Declaration, all Persons indemnified hereunder and their respective estates, permitted successors, Transferees, custodians, executors, administrators, legal representatives, heirs and permitted assigns.

15. GOVERNING LAW; VENUE.

(a) THIS AGREEMENT IS MADE PURSUANT TO AND SHALL BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK, NOTWITHSTANDING THE PLACE WHERE THIS AGREEMENT IS EXECUTED BY THE PARTIES OR THE LOCATION OF ANY OFFICE, VENTURE OR OPERATION OF THE FUND OR THE INVESTMENT ADVISER. ANY ACTION OR PROCEEDING BROUGHT BY ANY DECLARATION PARTY AGAINST ONE OR MORE LIMITED PARTNERS, DIRECTORS OR THE FUND RELATING IN ANY WAY TO THIS AGREEMENT OR THE OPERATION OF THE FUND MAY, AND ANY ACTION OR PROCEEDING BROUGHT BY ANY OTHER PARTY AGAINST ANY DECLARATION PARTY OR THE FUND RELATING IN ANY WAY TO THIS AGREEMENT OR THE OPERATION OF THE FUND MAY ALSO, BE BROUGHT AND ENFORCED IN THE CITY, COUNTY AND STATE OF NEW YORK OR (TO THE EXTENT SUBJECT MATTER JURISDICTION EXISTS THEREFOR) IN THE COURTS OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF NEW YORK, AND THE FUND AND THE INVESTMENT ADVISER IRREVOCABLY SUBMIT TO THE NON-EXCLUSIVE JURISDICTION OF BOTH SUCH STATE AND FEDERAL COURTS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING. THE FUND AND THE INVESTMENT ADVISER IRREVOCABLY WAIVE ANY OBJECTION THAT THEY MAY NOW OR HEREAFTER HAVE TO LAYING THE VENUE OF ANY SUCH ACTION OR PROCEEDING IN THE COURTS OF THE CITY, COUNTY AND STATE OF NEW YORK OR IN THE COURTS OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF NEW YORK AND ANY CLAIM THAT ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

(b) EACH PARTY HEREBY IRREVOCABLY WAIVES ANY RIGHT TO TRIAL BY JURY WITH RESPECT TO ANY CLAIM AGAINST ANY DECLARATION PARTY RELATING IN ANY WAY TO THIS AGREEMENT, THE OPERATION OF THE FUND OR THE OFFERING OF THE INTERESTS.

(c) THE FUND HEREBY AGREES THAT SERVICE OF PROCESS MAY BE EFFECTED ON SUCH PARTY IN THE SAME MANNER AS NOTICES ARE GIVEN PURSUANT TO **SECTION 12**.

20. No Registration as a Commodity Pool Operator.

The Fund will trade futures contracts. However, the Fund has claimed an exclusion from registration as a commodity pool operator (“**CPO**”) pursuant to Commodity Futures Trading Commission (“**CFTC**”) Regulation 4.5(a)(1) and is not subject to CPO regulation. Also, the Investment Adviser is exempted from registration as a commodity trading advisor (“**CTA**”) and is generally not subject to CTA regulation.

21. Force Majeure.

Notwithstanding anything to the contrary contained herein, in the event that, due to the occurrence of a natural or man-made disaster, armed conflict, act of war or terrorism, riot, labor disruption, computer hardware or software failure, inaccessibility or error or any other circumstance beyond the Investment Adviser’s or the Fund’s control, it becomes impossible (in the case of the Investment Adviser, other than as a result of the Investment Adviser acting in bad faith or due to the Investment Adviser’s fraud, gross negligence or willful disregard of its duties or otherwise as required by Law) for the Investment Adviser or the Fund to perform any obligation, make or receive any payment or delivery or comply with any provision of this Agreement, failure to perform such obligation, make or receive such payment or delivery or comply with any such provisions shall not constitute a breach hereof.

22. Matters Not Provided For; Compliance with Law.

(a) The Investment Adviser shall be empowered to decide any question arising with respect to the Fund and/or this Agreement, and to make such provisions as the Investment Adviser deems to be in, or not opposed to, the interests of the Fund, but which are not specifically set forth herein.

(b) The Investment Adviser may, but shall have no obligation to, take any action which the Investment Adviser determines necessary or advisable to ensure that the Fund is not in violation of Law or in breach of any contractual provisions. The Investment Adviser shall not, however, be liable or responsible for any such violation except as provided in **Section 4**.

23. Entire Agreement.

This Agreement, the Limited Partnership Agreement and the other Material Contracts contain the entire agreement and understanding of the parties hereto relating to the

subject matter hereof, and supersedes any prior agreement and understanding of the parties relating to such subject matter (including, without limitation, the Original Agreement).

24. Definitions.

- (a) Defined terms not otherwise defined herein are used with the meanings set forth in the Limited Partnership Agreement.
- (b) No amendment or modification to the definitions set forth in the Limited Partnership Agreement which affects any defined term used in this Agreement shall be effective in respect of this Agreement without the consent of Declaration.

25. Severability.

In the event that any provision of this Agreement is held to be invalid or unenforceable in any jurisdiction, such provision shall be deemed modified to the minimum extent necessary so that such provision, as so modified, shall no longer be held to be invalid or unenforceable. Any such modification, invalidity or unenforceability shall be strictly limited both to such provision and to such jurisdiction, and in each case to no other. Furthermore, in the event of any such modification, invalidity or unenforceability, this Agreement shall be interpreted so as to achieve the intent expressed herein to the greatest extent possible in the jurisdiction in question and otherwise as set forth herein.

26. Advisers Act Compliance; No Waiver of Rights.

(a) Any provisions of this Agreement which are construed to violate the Advisers Act shall be deemed null and void *ab initio*. The Fund acknowledges receipt of Declaration's Form ADV Part II at least 48 hours prior to the execution and delivery of this Agreement.

(b) The Fund shall not, as a result of any provision hereof, be deemed to have waived any rights which the Fund may have under any federal or state securities, commodities or other laws.

* * * * *

IN WITNESS WHEREOF, this Agreement has been executed by the Fund and Declaration as the date first written above.

DMR MORTGAGE OPPORTUNITY FUND LP

By: _____
Name: _____
Director

Accepted:

DECLARATION MANAGEMENT & RESEARCH LLC

By: _____
Name:
Title:

MANAGEMENT FEE CALCULATION SCHEDULE
to the
AMENDED AND RESTATED INVESTMENT ADVISORY AGREEMENT
DATED AS OF _____, 2008
(the "Agreement")
by and between

DMR MORTGAGE OPPORTUNITY FUND LP

and

DECLARATION MANAGEMENT & RESEARCH LLC

Unless otherwise defined herein, defined terms have the meaning set forth in the Agreement or the Limited Partnership Agreement.

1. The Management Fee will be paid to the Investment Adviser by the Fund in arrears as of the end of each month. The Management Fee will be 1/12 *times* a 1.50% annual rate *times* the aggregate Invested Capital of each Limited Partner.

2. During the Reinvestment Period, Invested Capital will equal the aggregate Capital Contributions to the Fund.

3. During the Distribution Period, Invested Capital will be recalculated as of the end of each month, and will equal (a) the aggregate Capital Contributions to the Fund *minus* (b) the product of (1) distributions made to Limited Partners by the Fund and (2) the Adjustment Factor. The Adjustment Factor is the ratio (expressed as a percentage not exceeding 100%) of (a) aggregate Invested Capital as of the end of the preceding month to (b) the Net Asset Value of the Fund as of the end of the preceding month. The Adjustment Factor has the effect of reducing the base on which the Management Fee is calculated to reflect returns of capital to investors during the Distribution Period.

4. No Management Fee will apply after the end of the Distribution Period.

5. Management Fees (as well as the Fund's expenses) are paid from the proceeds of Capital Calls and/or Fund investments.

6. All Management Fees due shall be paid in cash within three Business Days of the date when due. Any such amounts due but not timely paid (for whatever reason) shall bear interest at one-month LIBOR beginning with the fifth Business Day after the date when due. In the event of any dispute concerning any amounts so due, the Fund shall, at the request of the Investment Adviser, immediately pay over to the Investment Adviser the full amount not the subject of dispute, pending final resolution of the exact amount due.

7. If the Investment Adviser serves hereunder for less than the whole of any month, the fee hereunder shall be prorated according to the proportion that such period bears to the full month and shall be payable within 30 days after the end of the relevant month or the date of termination of this Agreement, as applicable. The value of the Invested Capital of the Fund and the Adjustment Factor (based in part on Net Asset Value) shall be determined pursuant to the applicable provisions of the Limited Partnership Agreement and the CNMIC Restrictions.

INVESTMENT GUIDELINES SCHEDULE
to the
AMENDED AND RESTATED INVESTMENT ADVISORY AGREEMENT
DATED AS OF _____, 2008
(the "Agreement")
by and between

DMR MORTGAGE OPPORTUNITY FUND LP

and

DECLARATION MANAGEMENT & RESEARCH LLC

Unless otherwise defined herein, defined terms have the meaning set forth in the Agreement or the Limited Partnership Agreement.

From the end of the Draw Period to the end of the Reinvestment Period, the Investment Adviser intends to adhere to the following investment guidelines in implementing the Fund's investment strategy:

1. The Fund will not invest more than 5% of its Net Asset Value in any single position.
2. The Fund may invest up to 100% of its Net Asset Value in residential mortgage-backed securities ("RMBS").
3. The Fund will not invest more than 35% of its Net Asset Value in commercial mortgage-backed securities ("CMBS") and commercial real estate collateralized debt obligation ("CDO") positions primarily backed by CMBS, combined.
4. The Fund will not invest more than 25% of its Net Asset Value in structured finance CDOs primarily backed by RMBS, and will not invest in any structured finance CDO issue rated below Aa3/AA- at the time of its initial issuance.
5. The Fund will not invest in long credit default swap ("CDS") positions (*i.e.*, the Fund will not enter CDS as a seller of credit protection under CDS positions).
6. The Fund will not invest more than 35% of its Net Asset Value in short credit positions; all short CDS positions will be entered into for risk mitigation purposes only.
7. The Fund will not invest more than 15% of its Net Asset Value in corporate credit instruments, each of which must be mortgage- or mortgage-industry related.
8. The Fund will invest at least 80% of its assets, under normal circumstances, in mortgage-related investments and investments in the mortgage industry.

Compliance with the foregoing investment guidelines will be measured on (1) the first business day after the end of the Draw Period, (2) the end of the Reinvestment Period and (3) the trade date of each new investment made between dates (1) and (2). Market movements,

distributions and other factors may result in the Fund's portfolio exceeding any one or more of the foregoing limits at any given point in time. Furthermore, due to the illiquidity of the Fund's portfolio and difficulty in valuing its positions, allocations to specific holdings or sectors may from time to time exceed one or more of the foregoing limits. In general, the Investment Adviser will not be liable for the Fund exceeding any one or more of the foregoing investment guidelines; provided that the Investment Adviser has not acted in bad faith.

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