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# Hatteras Funds, LLC

## Form ADV Part 2A – Disclosure Brochure

**MARCH 31, 2015**

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This brochure provides information about the qualifications and business practices of Hatteras Funds, LLC. If you have any questions about the contents of this brochure, please contact us at 919.846.2324. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Any reference to or use of the terms “registered investment adviser” or “registered” does not imply that Hatteras Funds, LLC or any person associated with it has achieved a certain level of skill or training.

Additional information about Hatteras Funds, LLC is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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*Defining Alternatives*



## ITEM 2: MATERIAL CHANGES

Hatteras Funds, LLC's (Hatteras Funds) most recent update to Part 2 of Form ADV was made July 31, 2014. Below is an overview of material changes since the last update on July 31, 2014.

Effective March 13, 2015, Hatteras PE Intelligence Fund discontinued investment operations and redeemed all outstanding shares to Shareholders. References to Hatteras PE Intelligence Fund have been removed from this disclosure brochure.

Effective December 19, 2014, Hatteras Funds moved into a new office location located at 6601 Six Forks Road, Suite 340, Raleigh, NC 27615. References to the prior address have been removed from this disclosure brochure.

Hatteras Funds began using Broadridge and Glass Lewis proxy voting services to establish an independent source to vote proxies on behalf of Underlying Funds Trust and HCIM Trust. Item 17 has been updated accordingly.

We will provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting 919.846.2324. Our Brochure is also available on the SEC's website, [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) free of charge.

Additional information about Hatteras is also available via the SEC's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with Hatteras who are registered, or are required to be registered, as investment adviser representatives of Hatteras.

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## ITEM 4: ADVISORY BUSINESS

Hatteras Funds, LLC (“Hatteras”) is an SEC-registered investment adviser providing investment services to registered investment companies and private funds. Hatteras Funds, LLC was formed in 2013 as a wholly-owned subsidiary of RCS Capital Holdings, LLC which is an operating subsidiary of RCS Capital Corporation, a publicly traded company. Hatteras Funds, LLC is an alternative investment management firm headquartered in Raleigh, North Carolina. Hatteras has been registered with the U.S. Securities and Exchange Commission (the “SEC”) since March 14, 2014. Hatteras is also registered with the U.S. Commodities Futures Trading Commission and a member of the National Futures Association with respect to its advisory services to Hatteras Managed Futures Strategies Fund, Managed Futures Strategies Portfolio (and its Subsidiary, Hatteras Trading Advisors).

On June 30, 2014 Hatteras Funds, LLC completed its purchase of substantially all the assets related to the business and operations of the Hatteras Funds Group (consisting of Hatteras Alternative Mutual Funds, LLC, Hatteras Investment Partners, LLC and Hatteras Capital Investment Management, LLC). Accordingly, Hatteras Funds, LLC now serves as investment adviser to the funds formerly managed by Hatteras Alternative Mutual Funds, LLC, Hatteras Investment Partners, LLC and Hatteras Capital Investment Management, LLC.

Hatteras Funds provides unique alternative investment solutions for Financial Advisors and their Clients. We believe that all investors should have access to the same sophisticated investment approach and superior portfolio management talent as the largest institutions. A boutique alternative investment specialist, Hatteras Funds offers a suite of innovative products designed to help allocate to alternative investments.

Hatteras provides investment management services to registered open-end management investment companies (“mutual funds”), registered closed-end management investment companies and private funds. Additionally, Hatteras serves as General Partner to the limited partnerships it advises. Depending upon each fund’s specific registration status and type, the funds may either be publicly offered or privately placed. The funds are managed in accordance with the investment objectives, strategies and guidelines as outlined in the current registration statement or offering document and are not tailored to any particular investor in the funds. Hatteras does not provide individualized investment advice to investors; therefore, investors should consider whether a particular fund meets their investment objectives, risk tolerance and financial situation.

Hatteras’ investment management services include determining the investment objectives of the funds, manager search and selection, determining appropriate asset allocations

across fund investment strategies and monitoring existing and prospective investments in light of each fund's objectives and risk parameters.

Hatteras has entered into Investment Management Agreements with each fund, as applicable and/or required. The Investment Management Agreements describe the terms of the agreements, but in general, each agreement may be terminated at any time in writing by Hatteras or by the applicable fund upon 60 days prior written notice to Hatteras or the applicable fund, respectively.

As of December 31, 2014, assets under management were approximately \$2.5 billion.

The funds managed by Hatteras are as follows:

The **Hatteras Master Fund, L.P.** (the "Master Fund"), an investment company registered under the Investment Company Act of 1940. The Master Fund is the master fund in a master/feeder structure comprised of the Master Fund and the Hatteras Core Alternatives Funds ("Feeder Funds"). The Master Fund invests in other investment funds (the "Portfolio Funds") and managed accounts. Hatteras does not provide individualized investment advice to investors; therefore, investors should consider whether a particular Feeder Fund meets their investment objectives, risk tolerance and financial situation.

**The Hatteras Core Alternatives Fund, L.P.; the Hatteras Core Alternatives TEI Fund, L.P.; the Hatteras Core Alternatives Institutional Fund, L.P.; and the Hatteras Core Alternatives TEI Institutional Fund, L.P.** (collectively referred to as the "Core Alternatives Funds" or the "Feeder Funds") are Delaware limited partnerships that are registered under the Investment Company Act of 1940 (the "1940 Act"), as non-diversified, closed-end management investment companies whose units are registered under the Securities Act of 1933.

The Core Alternatives Funds will invest substantially all of their assets in the Master Fund. The Master Fund uses a number of independent trading advisors selected by Hatteras, the investment manager of the Master Fund, that are typically available on a collective basis to larger institutions. Hatteras primarily pursues the Core Alternatives Funds' investment objective by investing the Master Fund's assets in hedge fund strategies and private investments. Morgan Creek Capital Management, LLC ("MCCM") serves as sub-advisor to the Master Fund.

**Hatteras Global Private Equity Partners Institutional, LLC** (the "GPEP Institutional Fund") is a Delaware Limited Liability Company registered under the 1940 Act, as a non-diversified, closed-end management investment company. Capvent US Advisors, LLC ("Capvent") serves as sub-adviser to the GPEP Institutional Fund. GPEP Institutional Fund is closed to new investors.

**Hatteras GPEP Fund, L.P.** (the "GPEP Fund") is a Delaware series Limited Partnership that is not registered under the 1940 Act in reliance on Section 3(c)(1) of the 1940 Act. Capvent serves as sub-adviser to the GPEP Fund. GPEP Fund is closed to new investors.

**Hatteras GPEP Fund II, LLC** (the "GPEP Fund II" and collectively with the GPEP Institutional Fund and GPEP Fund the "GPEP Funds") is a Delaware Limited Liability Company registered under the 1940 Act, as a non-diversified, closed-end management investment company. Capvent serves as sub-adviser to the GPEP Fund II. GPEP Fund II is closed to new investors.

**Hatteras VC Co-Investment Fund II, LLC** (the "VCCI Fund II") is a Delaware Limited Liability Company registered under the 1940 Act, as a non-diversified, closed-end management investment company. VCCI Fund II is closed to new investors.

**Hatteras Late Stage VC Fund I, L.P.** (the "LSVC Fund" and collectively with the VCCI Fund II the "Venture Capital Funds") is a Delaware Limited Partnership and is not registered under the Investment Act of 1940, as amended in reliance on Section 3(c)(7) of the Investment Company Act. The LSVC Fund is closed to new investors.

#### **HCIM Trust**

**Hatteras Disciplined Opportunity Fund** (the "Disciplined Opportunity Fund"). The Disciplined Opportunity Fund is a series of HCIM Trust, an open-end management investment company. The Disciplined Opportunity Fund is classified as non-diversified and registered under the Investment Company Act of 1940 as amended and the Securities Act of 1933 as amended. Hatteras Disciplined Opportunity Fund is sub-advised by Acertus Capital Management, LLC ("Acertus").

#### **Hatteras Alternative Mutual Funds Trust ("HAMFT")**

**Hatteras Alpha Hedged Strategies Fund** (the "Alpha Fund"), **Hatteras Long/Short Equity Fund** (the "L/S Equity Fund"), **Hatteras Long/Short Debt Fund** (the "L/S Debt Fund"), **Hatteras Managed Futures Strategies Fund** (the "Managed Futures Fund"), **Hatteras Hedged Strategies Fund** (the "Hedged Strategies Fund")

Each Fund is a series of HAMFT, an open-end management investment company. Each fund is classified as diversified and is registered under the Investment Company Act of 1940 as amended and the Securities Act of 1933 as amended.

#### **Underlying Funds Trust ("UFT")**

**Long/Short Equity Portfolio, Market Neutral Portfolio, Relative Value – Long/Short Debt Portfolio, Managed Futures Strategies Portfolio, and Event Driven Portfolio**

Each Portfolio is a series of UFT, an open-end management investment company. Each Portfolio is classified as diversified and registered under the Investment Company Act of 1940 as amended. HAMFT and UFT are set up in a fund-of-funds structure whereby each series of Hatteras Alternative Mutual Funds Trust primarily invests its investable assets in one or more Portfolios in the Underlying Funds Trust. Each Portfolio is an affiliated registered investment company under the 1940 Act, but is not publicly offered and therefore is only available to the affiliated, publicly offered mutual funds of HAMFT. Each portfolio in the UFT is sub-advised by the various sub-advisors listed in the prospectuses of the Alpha Fund, L/S Equity Fund, L/S Debt Fund, Managed Futures Fund and Hedged Strategies Fund. Please reference each prospectus for a current list of sub-advisors.

**ITEM 5: FEES AND COMPENSATION**

A description of how Hatteras is compensated for its advisory services is summarized below. Fees and other expenses not disclosed here may be incurred by the funds, such as but not limited to, fund administration fees, fund accounting fees, custodian fees, audit fees and transfer agency fees and expenses, as applicable and further detailed in each fund's prospectus or offering document.

**Hatteras Core Alternative Funds**

The Master Fund will pay Hatteras a management fee at an annual rate of 1.00%, payable monthly in arrears, based upon the Master Fund's net assets as of each month-end. Although the Feeder Funds will not pay any direct investment management or advisory fees, the Feeder Funds will bear, as a result of their investment in the Master Fund, their allocable portion of the management fees charged to the Master Fund. Pursuant to a Sub-Advisory Agreement between Hatteras and MCCM, Hatteras will pay MCCM a portion of the management fee it receives from the Master Fund.

A Service fee of 0.85% is charged by the Fund Servicing Agent, Hatteras, on all assets in the Hatteras Core Alternatives Fund, L.P. and the Hatteras Core Alternatives TEI Fund, L.P. A Service fee of 0.10% is charged by Hatteras on the assets in the Hatteras Core Alternatives Institutional Fund, L.P. and the Hatteras Core Alternatives TEI Institutional Fund, L.P. Fees and other expenses not disclosed here may be incurred by the Feeder Funds, such as but not limited to, fund administration fees, fund accounting fees, custodian fees, audit fees and transfer agency fees and expenses, as applicable and further detailed in each fund's prospectus or offering documents.

In addition to the management fee, as detailed in Item 6, Hatteras and MCCM will be entitled to receive a Performance Allocation.

### **GPEP Institutional Fund**

GPEP Institutional Fund will pay Hatteras a management fee that shall equal 1.25% based, on an annualized basis of the net assets of the Fund as of each quarter-end. Hatteras will pay Capvent, as Sub-Adviser, a portion of the management fee it receives from the Fund.

A Service fee of 0.50% is charged by the Fund Servicing Agent, Hatteras, on all assets in GPEP Institutional Fund. During the offering period, investments in GPEP Institutional Fund were subject to a placement fee payable to the primary placement agent, Hatteras Capital Distributors, LLC, an affiliate of Hatteras. The Placement Agent entered into an expense reduction agreement pursuant to which it rebated to the Fund, in order to offset operating expenses, any amount it received as a placement fee.

In addition to the management fee, as detailed in Item 6, Hatteras and Capvent will be entitled to receive an Incentive Allocation

### **Hatteras GPEP Fund**

GPEP Fund will pay Hatteras a management fee that shall equal (i) until the last day of the Investment Period, 1.00% per year of aggregate commitments at the time such payment is payable; and (ii) in respect of the remainder of the term of the Fund and during any suspension period, 1.00% per year of the cost basis of the Fund's remaining fund investments less any unrealized losses related to such fund investments. Hatteras will pay Capvent, as Sub-Adviser, a portion of the Management Fee it receives from GPEP Fund.

In addition to the management fee, as detailed in Item 6, Hatteras and Capvent will be entitled to receive an Incentive Allocation

### **Hatteras GPEP Fund II**

GPEP Fund II will pay Hatteras a management fee that shall equal 1.25% on an annualized basis of the net assets of the Fund as of each quarter-end. Hatteras will pay Capvent, as Sub-Adviser, a portion of the Management Fee it receives from GPEP Fund II.

A Service fee of 0.50% is charged by the Fund Servicing Agent, Hatteras, on all assets in GPEP Fund II. During the offering period, investments in GPEP Fund II were subject to a placement fee payable to the primary placement agent, Hatteras Capital Distributors, LLC, an affiliate of Hatteras. The Placement Agent entered into an expense reduction agreement pursuant to which it rebated to the Fund, in order to offset operating expenses, any amount it received as a placement fee.

In addition to the management fee, as detailed in Item 6, Hatteras and Capvent will be entitled to receive an Incentive Allocation

### **VCCI Fund II**

VCCI Fund II will pay Hatteras a quarterly investment management fee equal to 2.00% on an annualized basis of the net assets of VCCI Fund II as of each quarter-end. Effective March 19, 2010 the Adviser committed to waive permanently a portion of its contractual fee rate under the Investment Management Agreement. Under this fee waiver, the management fee will be 2.00% on an annualized basis of the lesser of (a) the cost basis of VCCI Fund II's portfolio companies plus cash and cash equivalents, including short-term investments, or (b) VCCI Fund II's net asset value.

During the offering period, investments in VCCI Fund II were subject to a placement fee payable to the primary placement agent, Hatteras Capital Distributors, LLC, an affiliate of Hatteras.

### **LSVC Fund**

LSVC Fund will pay Hatteras a management fee at an annual rate of 0.75% of the committed capital during the Investment Period, and 0.75% of the original committed capital minus the cost basis of the portfolio securities sold, distributed or written off after the Investment Period until the final day of LSVC Fund.

A Service fee of 0.75% is charged by the Fund Servicing Agent, Hatteras Capital Distributors, LLC. A partnership management fee of 1.00% may be charged by Hatteras Funds, LLC, general partner of LSVC Fund.

### **HCIM Trust**

#### **Disciplined Opportunity Fund**

The Fund will pay Hatteras a management fee at an annual rate of 1.25% based on the average daily net assets of the fund. Hatteras will pay Acertus, as the Sub-Adviser, a portion of the management fee it receives from the fund.

### **Hatteras Alternative Mutual Funds Trust**

#### **Alpha Fund**

The Fund will pay Hatteras a management fee at an annual rate of .25% based on the average daily net assets of the fund.

#### **L/S Equity Fund**

The Fund does not pay Hatteras a management fee.

#### **L/S Debt Fund**

The Fund does not pay Hatteras a management fee.

#### Managed Futures Fund

The Fund does not pay Hatteras a management fee.

#### Hedged Strategies Fund

The Fund will pay Hatteras a management fee at an annual rate of .25% based on the average daily net assets of the fund.

#### **Underlying Funds Trust**

Each series of Underlying Funds Trust will pay Hatteras a management fee at an annual rate of 1.75% based on the average daily net assets of each series. Hatteras will pay each Sub-Adviser a portion of the management fee it receives based upon the average daily net assets allocated to each Sub-Adviser.

#### **Hatteras Alternative Mutual Funds Trust and Underlying Funds Trust**

Hatteras is responsible for paying fees to various shareholder servicing agents for performing shareholder servicing functions and maintaining shareholder accounts. These agents have entered into agreements with Hatteras and perform these functions on behalf of their clients who own shares of the Funds. For this service, Hatteras receives an annual shareholder servicing fee equal to 0.25% of the average daily net assets of the Hatteras Alpha Hedged Strategies Fund No Load shares from which the shareholder servicing agents are paid.

Hatteras has also entered into an Operating Services Agreement with the Funds (each series of HAMFT and UFT) to perform or arrange for the delivery of all professional administrative and operational services required by the funds to operate their business. These services may be performed directly by Hatteras or by employing suitable sub-contractors. Fees associated with the Operating Service Agreement are class and fund specific and are detailed in each Fund's prospectus. Hatteras has contractually agreed to waive all or a portion of its operating services fees and/or pay expenses of the Funds to ensure that the Net Annual Fund Operating Expenses for Hatteras Alpha Hedged Strategies Fund, Hatteras Long/Short Equity Fund, Hatteras Long/Short Debt Fund, Hatteras Managed Futures Strategies Fund and Hatteras Hedged Strategies Fund do not exceed the expense caps in place. Please refer to the prospectus located at [www.hatterasfunds.com](http://www.hatterasfunds.com) for a full description of the expense caps in place.

### **ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Hatteras has entered into the performance related fee arrangements detailed below.

#### **Hatteras Core Alternative Funds**

Hatteras is allocated a Performance Allocation equal to 10% of the amount by which net new profits of the limited partner interests of the Master Fund exceed the non-cumulative “hurdle amount,” which is calculated as of the last day of the preceding calendar year of the Master Fund at a rate equal to the yield-to-maturity of the 90 day U.S. Treasury Bill as reported by the Wall Street Journal for the last business day of the preceding calendar year (the “Performance Allocation”). The Performance Allocation is made on a “peak to peak,” or “high watermark” basis, which means that the Performance Allocation is made only with respect to new net profits. If the Master Fund has a net loss in any period followed by a net profit, no Performance Allocation will be made with respect to such subsequent appreciation until such net loss has been recovered. Pursuant to a Sub-Advisory Agreement between Hatteras and MCCM, Hatteras will pay MCCM a portion of the Performance Allocation it receives from the Master Fund.

### **GPEP Institutional Fund**

GPEP Institutional Fund will pay an incentive allocation at the end of each calendar year (and at certain other times, including upon the effective date of any repurchase), to Hatteras and Capvent, as Sub-Adviser, in an amount equal to 5% (10% in the aggregate) of the excess, if any, of the net profits of GPEP Institutional Fund above the then balance of GPEP Institutional Fund’s loss recovery account; provided that GPEP Institutional Fund has earned at least a 6% annualized return (prior to the deduction of the Incentive Allocation) for the period. Any incentive allocation will be deducted pro-rata from each Member’s Units.

### **GPEP Fund**

Cash and securities received by the GPEP Fund from a portfolio fund (“Distribution Proceeds”) will be distributed to each Limited Partner in proportion to its pro rata capital contribution made in respect to such portfolio fund, in the following order of priority:

- (a) First, 100% to such Limited Partner until the cumulative distributions to such Limited Partner equal the aggregate of such Limited Partner’s Capital Contributions to the Fund made in respect to the portfolio fund from which proceeds are received (such Fund Investment, the “Distribution Source”) plus such Limited Partner’s Capital Contributions to the GPEP Fund used to fund the GPEP Fund’s expenses including the Management Fee in respect to the Distribution Source, as of that time;
- (b) Second, to such Limited Partner until such Limited Partner’s internal rate of return (calculated in accordance with the Partnership Agreement) on the Capital Contributions made in respect to such Distribution Source equals 7% (the “Preferred Return”);
- (c) Third, to the General Partner (Hatteras Funds, LLC) and Capvent, as Sub-Adviser, until each has received 5% of the sum of all distributions made pursuant to clause (b) above and this (c); and

(d) Thereafter, 90% to such Limited Partner, 5% to the General Partner and 5% to the Sub-Adviser (the 5% payable to each of the General Partner and Sub-Adviser pursuant to clause (c) above and this (d), the "Carried Interest").

### **GPEP Fund II**

After a Member has received distributions and/or repurchase proceeds equal to 125% of its Capital Contributions, GPEP Fund II will make distributions and repurchase proceeds on a 90%/ 5%/ 5% split among the Member, the Adviser and Capvent, as Sub-Adviser, respectively.

### **VCCI II and LSVC Funds**

The Venture Capital Funds do not charge performance-based fees.

The mutual funds, each series of **Hatteras Alternative Mutual Funds Trust, Underlying Funds Trust, and HCIM Trust**, do not charge performance-based fees.

It is important to note that such performance fees may create an incentive for Hatteras to make riskier, more speculative investments than would be the case under a solely asset-based fee arrangement. Any performance-based fee arrangements will be consistent with the requirements of applicable laws and regulations, including the Advisers Act and if applicable, the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

As is typical for many money managers including Hatteras, a potential conflict of interest may arise related to the side-by-side management of one or more funds with a performance-based fee along with one of more funds with non-performance based fees. The management of both types of funds at the same time may create an incentive to favor the fund that produces a higher fee. Hatteras has adopted trading and allocation policies designed to ensure that its side-by-side management of funds with different types of fees is at all times consistent with its fiduciary responsibilities, and that no fund is favored over another. These policies include requirements that all funds in the same strategy generally be managed the same way, that is, the funds must have the same portfolio holdings and must be traded at the same time, regardless of the type of fee arrangement. The Funds are regularly reviewed by Hatteras to ensure that these policies are closely followed, that buy and sell opportunities are allocated fairly among funds regardless of fees charged, and that all funds are treated equitably.

## **ITEM 7: TYPES OF CLIENTS**

Hatteras provides investment management services to the Funds described in Item 4 including registered investment companies and private funds that may invest in hedge

funds, other private limited partnerships, direct company investments, equities, fixed income, derivatives and other types of investments as outlined in each Fund's respective prospectus, registration statement or offering memorandum. Please see the response to Item 4 for a description of the Funds. The minimum initial investment varies by Fund, and each Fund, in its sole discretion, may accept investments below the stated minimums.

Hatteras does not currently provide advisory services to individual clients and has no current plans to provide such services.

## **ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

As with all investments, investing involves risk and loss of principal is possible. Please see each Funds prospectus, registration statement, or offering memorandum for a detailed discussion of the specific risks disclosed here and other important risks and considerations. Furthermore, please consult an investment professional for advice regarding your particular circumstances. An investment in the Funds may not be suitable for all investors.

### **Hatteras Core Alternatives Funds**

In making investment decisions on behalf of the Core Master Fund, Hatteras, along with MCCM, as Sub-Adviser, utilize third party research and software, on-site visits, interviews, and fundamental analysis. This approach reflects the endowment style approach to alternative investing. The Hatteras Core Alternatives Funds were created to complement traditional portfolios by offering an allocation to an array of alternative investments through a diversified, professionally managed fund-of-funds vehicle. After identifying the alternative strategies that would be utilized in the Master Fund – Hedge Fund Strategies and Private Investments – we created an asset allocation model with strategic ranges for those strategies.

The Hatteras and MCCM investment teams meet formally on a periodic basis in an effort to position the Master Fund to have the best possible opportunity to accomplish its stated long-term investment goals. Strategic asset allocation serves as the main focus during these meetings. Furthermore, tactical opportunities in the marketplace are discussed. This step of our process reflects our capital markets analysis, deep historical understanding of alternative strategies, and forward looking risk/return expectations.

Hatteras and MCCM's manager selection stems from the Fund's overall investment process, which focuses on identifying investment themes and strategies. The Fund's sub-

advisor, MCCM, then seeks managers who are highly skilled at implementing these strategies and investment themes. The MCCM team continually seeks to identify best-of-breed managers to complement the existing portfolio. Our long track record of investing in alternative assets and large professional network allow us to effectively source and screen for high quality managers. Managers under consideration are subject to a rigorous and dynamic due diligence review, with defined steps and documented metrics required for approval.

The Investment Committee's manager ideas flow from the asset allocation process and the Investment Committee's key themes; actively sourcing ideas from peers, current managers, and other service providers; and a continual vetting process across multiple asset classes. The investment team does not perform discrete searches; rather, the team is continually in search mode to discover managers and then cultivate and establish relationships with those they believe are the most talented investment managers in each area of interest.

Within each strategy there is also an emphasis on maintaining a fully diversified approach by sub-strategy, theme, and current outlook. Hedge Fund Strategies is constructed using a balanced approach with investments in Opportunistic Equity, Enhanced Fixed Income, Absolute Return and Tactical Trading. The Private Investments strategy of the portfolio is constructed using a balanced approach, with investments in Real Estate, Private Equity, and Energy and Natural Resources. The Fund takes a macro perspective and carefully considers liquidity needs over several years in order to make appropriate commitment levels to these private investments. The investment team utilizes risk management tools to optimize portfolio construction across the five strategies. These tools include detailed cash flow models to guide decision-making and forecast future capital activity within the private investment strategies. The final portfolio is shaped by a number of factors, including the Investment Committee's macro outlook, liquidity considerations, and the skill sets of approved managers.

Risk management is imbedded throughout the Fund's diversified approach across our different investment strategies. A core belief is that risk can be mitigated by investing across a truly diverse portfolio of public and private investments, with defined allocation limits and through position sizing.

First, the focus is on areas like liquidity, volatility and on meeting the Fund's investment objectives without taking unwanted risks. Second, the separate strategies each have unique characteristics that are analyzed by experienced investment staff. Strategy risk tools are utilized to optimize how the portfolio is built across the five different strategies. The investment team then defines and locates risk and then decides whether the potential return is appropriate and allocates accordingly. Third, Portfolio Funds eligible for inclusion in the Fund are analyzed from a quantitative and non-investment perspective.

Quantitative risk measurement during manager selection is driven by correlations, returns, and exposures. Our Risk management processes are applied to understand not just the fund strategy, but how the fund's characteristics impact the portfolio. The last step of risk management is the operational due diligence process lead by MCCM.

Quantitatively, risk is managed in every step of the Fund's investment process. At the asset allocation level scenario and liquidity analysis is run during extreme events to incorporate a risk budget. From the construction aspect, strategy risk tools are implemented to optimize how the Fund builds a portfolio. Here, the investment team is looking to define and highlight where risks are and then decide whether the potential return is appropriate and how to allocate accordingly. Third, quantitative manager selection is driven by correlations, returns and exposures, as quantitative risk measurement tools are used to understand not just the Fund, but also how the underlying fund impacts the overall context of the portfolio.

An investment in the Hatteras Core Alternatives Funds involves substantial risks, including the risk that the entire amount invested may be lost. The Feeder Funds, through their investment in the Master Fund, allocate their assets to Portfolio Funds that invest in and actively trade securities, commodities and other financial instruments using a variety of strategies and investment techniques that may involve significant risks. Various other types of risks are also associated with an investment in the Feeder Funds, including risks relating to the fund of funds structure of the Master Fund, risks relating to the master-feeder structure, risks relating to compensation arrangements and risks relating to the limited liquidity of the Units. Additional risks include industry concentration risk, non-diversification risk, leverage, turnover, valuation of Portfolio Funds, highly volatile markets, counter-party credit risk, and dilution. Please see each Feeder Fund's respective offering memorandum, prospectus or registration statement for a detailed discussion of the specific risks disclosed here and other important risks and considerations.

### **The GPEP Funds**

The GPEP Funds' (Hatteras GPEP Fund, L.P., Hatteras Global Private Equity Partners Institutional, LLC and Hatteras GPEP Fund II, LLC) investment objective is to seek attractive long-term capital appreciation by investing in a globally diversified portfolio of private equity investments. The GPEP Funds' investments are expected to include: (i) primary and secondary investments in private equity funds managed by third-party managers; (ii) direct investments in the equity and/or debt of operating companies, frequently alongside professional lead investors; and (iii) listed private equity investments, such as business development companies.

The principal elements of the GPEP Fund's investment strategy includes (i) strategically allocating the assets of the Fund across the global private equity market; (ii) identifying

investments that appear most attractive in sectors of the private equity market place that are believed to offer superior relative value; (iii) performing detailed due diligence of targeted investment opportunities using an established proprietary process that assesses both qualitative and quantitative aspects; and (iv) seeking to manage risk through ongoing monitoring of the portfolio.

The first phase of the investment process involves strategic asset allocation, which is designed to provide a framework for the GPEP Funds' long-term diversification. The strategic asset allocation addresses various dimensions of the global private equity market, such as: (i) primary, secondary, direct and listed private equity investments; (ii) buyout, venture capital / growth capital, mezzanine debt, distressed debt, and other special situations; and (iii) investments focused in North America, Europe, Asia and Emerging Markets. Asset allocations stems from top-down, macroeconomic analysis that incorporates Hatteras and Capvent's beliefs about the distinct risk, return and correlation characteristics of different private equity investments.

As a result of the review of strategic asset allocation, Hatteras and Capvent will attempt to seek sectors of the private equity marketplace that exhibit a reasonable relationship between demand for and supply of investment capital, anticipate trends in the private equity marketplace, and avoid overweighting highly competitive sectors or geographies that might not offer the best risk reward potential.

The second step of the investment process is to proactively identify and source a large number of private equity investments across different investment types, sub-strategies, and geographic regions. Hatteras and Capvent use a number of tools to compare investments and evaluate the investments' relative positioning in the market place. Standardized screening is a pre due diligence phase of the investment process and allows for comparative analysis across investments. The key comparison parameters include management and incentives, investment strategy or business model, track record analysis, moral hazard, adverse selection, potential conflicts of interest, specific terms related to the investment, and the supply and demand of capital related to the specific strategy. Hatteras and Capvent will attempt to use this analysis to identify the investments with the most attractive risk and reward characteristics in each segment of the private equity market.

Investments that appear to meet the initial due diligence requirements are documented in a formalized report to the Investment Committee, which will determine whether to perform detailed due diligence on the opportunity. The Investment Committee could instruct Hatteras and Capvent to discontinue the analysis of the investment, or provide specific information and guidelines for Hatteras and Capvent to seek upon the initiation of the second, more detailed phase of due diligence.

The final step in the investment process is the selection of investments. The investment decision making process is guided by a rigorous due diligence process that involves a detailed analysis of various aspects of each opportunity, including both qualitative and quantitative assessments, as well as initial feedback from the Investment Committee. Various proprietary tools are used to better understand market trends, potential return scenarios and/or the historical or anticipated sources of value creation for an investment. The due diligence verification process is generally based upon information such as interviews with key personnel, reference checks targeting key personnel, on-site visits, track record analysis. During this process, Hatteras and Capvent will seek a deeper understanding of aspects such as the investment strategy of the fund (or business model of the company), the management team involved with the investment, the operational effectiveness of the fund, the competitive advantage of the investment, the fund's historical track record and valuation procedures. In conjunction with the commercial due diligence process, the tax treatment and legal terms of the investment are considered. After resolving all open issues and negotiating terms, a final Investment Proposal is prepared and presented to the Investment Committee, which finally approves or declines the investment.

Post investment, the Investment Committee seeks to monitor the portfolio through ongoing interaction with the managers represented in the GPEP Funds' portfolio. This interaction facilitates ongoing portfolio analysis and resolution of issues such as strategy drift, loss of key team members or proposed changes in constituent documents. It also provides ongoing due diligence feedback, which can be extremely valuable as additional investments with a particular manager are considered.

Investments in the GPEP Funds involve a high degree of risk, including the complete loss of capital. General Risks, Special Risks and Investment-Related Risks of the GPEP Funds include, but are not limited to, Limited Operating History of the Fund, Limited Liquidity, Reporting Requirements, Non-Listed Status of Units, Non-Diversified Status, Legal, Tax and Regulatory Risks, Underlying Portfolio Funds Not Registered, Portfolio Funds Generally Non-Diversified, Valuation of Portfolio Funds, Multiple Levels of Fees and Expenses, Portfolio Fund Managers Invest Independently, Portfolio Fund Operations Not Transparent, Concentration of Investments, Derivative Instruments, Distressed Investments, Valuation of Illiquid Securities and Derivative Positions, Unspecified Investments, Leverage, Risks of Capital Call Failures, and Limited Selectivity of Investments.

### **The Venture Capital Funds**

The Venture Capital Funds' (Hatteras Late Stage VC Fund I, L.P. and Hatteras VC Co-Investment Fund II, LLC) investment objective seeks superior risk-adjusted returns by investing in venture-backed companies. The Venture Capital Funds intend to achieve

their investment objective by investing all or substantially all of their assets in venture-backed companies alongside top-tier venture capital firms. During normal market conditions, the Venture Capital Funds' investment adviser will follow a rules-based portfolio construction process to guide the Funds' investment strategy.

The Venture Capital Funds will be a co-investor alongside top-tier venture capital firms. Exposure to venture capital investments further diversifies a portfolio and could potentially produce excess rates of return compared to investments in the public markets. However, historical statistics suggest that it is access to top-tier firms which acts as the critical element for achieving these superior investment returns. The top-tier firms gain access to good ideas and good entrepreneurs before many in the industry. However, even the best venture capitalists sometimes invest in firms that do not achieve a liquidity event. Such venture capitalists do not know with certainty which companies will falter and which will return multiples of invested capital.

Since venture capital involves a great deal of uncertainty, Hatteras developed a rules-based investment process, designed to complement the analysis done by the top-tier firms. This rules-based process attempts to increase the likelihood of investing in companies displaying certain performance characteristics and a strong likelihood of reaching a successful liquidity event. Similarly, the process attempts to decrease the chances of investing in companies that may not return capital. Some of the Investment Criteria seek to ensure investments made by the Venture Capital Funds are invested in companies that have an operating history, a product or service that has shown initial acceptance in the marketplace (defined by revenues) and that are moving towards producing positive cash flow within the foreseeable future. During normal market conditions, Hatteras will follow a rules-based portfolio construction process to guide the Venture Capital Funds' investment strategy.

Hatteras' due diligence focus centers on validating several primary and secondary investment criteria. An investment opportunity meeting the requirements of the Primary Investment Criteria and the Secondary Investment Criteria will have met all Investment Criteria.

The investment process seeks to produce a diversified portfolio of venture-backed private companies with strong management teams, well-developed new products, and the potential to achieve a liquidity event within a reasonable time frame. In connection with an investment, Hatteras will review the offering materials, together with the relevant documents governing the purchase and sale of the specific equity security, and the information in respect to upcoming road shows for the potential portfolio company to Hatteras. Hatteras will conduct a verification examination to ensure the Investment Criteria are met. Once the verification process has been completed, and the Venture Capital Opportunity is deemed to have met all of the above requirements, then the

Investment Committee will meet to ensure final verification and approval. The Investment Committee must come to a unanimous agreement for the Venture Capital Opportunity to become part of each Venture Capital Funds' portfolio.

An investment in the Venture Capital Funds involves a substantial amount of risk, including the risk that the entire amount invested may be lost. The underlying venture capital investments are not required to provide transparency with respect to their financial statements or investments. Investment by the Venture Capital Funds in certain companies may involve a high degree of risk in that such companies may be in a relatively early-stage of development with little operating history and with a need for substantial additional capital to support expansion or to achieve or maintain a competitive position. Such companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and service capabilities, and a larger number of qualified managerial and technical personnel. The value of equity securities varies in response to many factors. Factors specific to the company, such as certain decisions by management or loss of a key executive, could result in a decrease in the value of a company's securities. Factors specific to the industry in which the company participates, such as increased competition, can have a similar effect. The value of a company's stock can also be adversely affected by changes in financial markets generally, such as an increase in interest rates or a decrease in consumer confidence, that are unrelated to the company itself or its industry.

### **Hatteras Mutual Funds**

Hatteras Funds currently manages six (6) publicly offered mutual funds. These funds are listed below. Please refer to each mutual fund's Prospectus and SAI for a full description of the investment objectives, principal investment strategies and principal investment risks.

### **Hatteras Disciplined Opportunity Fund**

The Disciplined Opportunity Fund seeks to consistently outperform the broader equity market on a risk-adjusted basis in both rising and declining markets.

The Fund seeks to achieve its investment objective principally by:

- Buying call options on the S&P 500® Composite Stock Price Index (the "S&P 500 Index") to create broad market exposure, and
- Buying and writing (selling) additional call and put options on the index to enhance market returns and reduce market losses.

The Disciplined Opportunity Fund generally intends to utilize Flexible Exchange Options ("FLEX Options"), which are customized option contracts available through the Chicago

Board Options Exchange that are guaranteed for settlement by the OCC. FLEX Options provide investors with the ability to customize exercise prices and expiration dates, while achieving price discovery in competitive, transparent auction markets and avoiding the counterparty exposure of over-the-counter (“OTC”) options positions.

The Sub-Advisor, Acertus Capital Management, LLC, employs a proprietary “Planned Return Strategy” (“PRS”) to select Disciplined Opportunity Fund investments. PRS is based on the Sub-Advisor’s work in Behavioral Finance and is designed to consistently outperform the S&P 500® on a risk-adjusted basis in both rising and declining markets. The Disciplined Opportunity Fund is classified as non-diversified. A non-diversified investment company may invest in the securities of fewer issuers at any one time than diversified funds.

A complete discussion of the potential risks inherent in an investment in the mutual fund can be found in the Disciplined Opportunity Fund’s current prospectus and SAI. Losing all or a portion of your investment is a risk of investing in the Disciplined Opportunity Fund. The following additional risks could affect the value of your investment: Derivatives involve investment exposure that may exceed the original cost and a small investment in derivatives could have a large potential impact on the performance of the Disciplined Opportunity Fund. The Disciplined Opportunity Fund may invest in options. Options transactions may be effected on securities exchanges or in the OTC market. When options are purchased over-the-counter, the Disciplined Opportunity Fund bears the risk that the counter-party that wrote the option will be unable or unwilling to perform its obligations under the option contract. The Disciplined Opportunity Fund may engage in Short Sale/Put and Call Options which entail substantial risks. Also, options transactions involve special risks that may make it difficult or impossible to unwind a position when the Disciplined Opportunity Fund desires. Short-sale strategies are riskier than long investment strategies. The Fund could incur potentially unlimited losses. If the value of a security sold short increases, the Disciplined Opportunity Fund will incur a loss because it will have to purchase the security at a higher price. The Disciplined Opportunity Fund is a recently-formed entity with limited or no operating history. The Disciplined Opportunity Fund’s success will depend on the management of the Sub-Adviser and on the skill and acumen of the Sub-Advisor’s personnel. The Disciplined Opportunity Fund is considered non-diversified and may invest in the securities of fewer issuers than diversified funds at any one time; as a result, the gains and losses of a single security may have a greater impact on the Disciplined Opportunity Fund’s share price.

**Hatteras Alternative Mutual Funds Trust (consisting of Hatteras Alpha Hedged Strategies Fund, Hatteras Long/Short Debt Fund, Hatteras Long/Short Equity Fund, Hatteras Managed Futures Strategies Fund and Hatteras Hedged Strategies Fund)**

The Funds pursue their investment objectives by investing primarily in a portfolio of one or more affiliated investment companies (such as the Long/Short Equity Portfolio, Market Neutral Portfolio, Relative Value-Long/Short Debt Portfolio, Event Driven Portfolio and Managed Futures Strategies Portfolio) (the “Underlying Funds”). The funds invest their assets with a weighting in one or more of the Underlying Funds consistent with their investment objective. Hatteras selects Sub-Advisors for the Underlying Funds and allocates the assets of each Underlying Fund among its respective Sub-Advisors. The Underlying Funds consist of Long/Short Equity, Market Neutral, Relative Value – Long/Short Debt, Managed Futures Strategies and Event Driven. Our investment philosophy is centered on the idea that by investing with multiple diversified managers the idiosyncratic risks are significantly reduced which, over time, could lead to outperformance and reduce volatility.

The first step in the investment process is to define the mandate. With the mandate defined, the investment process continues with the following steps: manager search and selection; manager due diligence; portfolio construction; and risk management.

The portfolio management team looks to identify experienced, nimble, emerging managers through a variety of resources including industry relationships, conferences and databases. Key to the manager selection process is to identify if their investment strategy is liquid and does not use excess leverage to generate returns. Once this is established, the portfolio management team evaluates if the strategy will bring additional diversification to the current portfolio and if the manager can deliver superior risk adjusted returns over time. Historically the portfolio management team has focused on discovering emerging hedge fund managers with the belief that they can offer a return premium over larger, more established hedge fund managers.

The next step of the investment process is performing manager due diligence. The portfolio management team completes an exhaustive internal review of the hedge fund manager including investment strategy and thesis, expected performance in various market conditions, volatility targets, risk management systems and sell discipline. Once completed, a comprehensive quantitative analysis is conducted. The analysis takes into consideration six portfolio factors and eight dimensions of risk analysis. The manager’s fit into the Hatteras portfolio is reviewed and the manager’s sizing and capacity constraints are considered. Next, the operational due diligence team conducts a thorough analysis of the manager’s business operations. This review considers employees’ ownership and compensation structure, reference checks, regulatory filings, IT systems and services, and background checks. The final deliverable is a detailed Manager Research Report. Approval by the Chief Compliance Officer, investment committee, and the independent Board of Trustees is required for the manager to be added to the platform. Once approved, selected hedge fund managers are given complete trading authority over a separately managed account within the respective mutual fund portfolio.

To construct the Funds, the portfolio management team begins by reviewing each Fund's investment mandate. The investment mandate for the newly added hedge fund manager is also established at this time. Here the portfolio management team clearly defines how he/she will trade the separately managed account, typically pari-passu to the hedge fund strategy they are currently managing. At this stage, position sizing and portfolio fit are considered. The portfolio management team determines strategy allocations based on the drivers of performance. Portfolio allocations by strategy and manager are closely examined on a quarterly basis.

Risk management is the final and ongoing step in the process. Risk management is built into all steps in the investment process. The truly differentiating factor when compared to traditional alternative investments structured as limited partnerships is the portfolio management team's ability to review performance at the security position, hedge fund manager, strategy and fund levels each day. On a daily basis performance relative to market performance and strategy specific benchmarks is compared; individual manager investment mandate violations are reviewed; volatility and beta are calculated; flows and allocations are examined and checked and exposures are reviewed for adherence to expectations. If managers deviate too far from their investment mandate, an exception report is generated signaling the portfolio management team to follow up with the manager for additional information.

A complete discussion of the potential risks inherent in an investment in the Alpha Fund, L/S Debt Fund, L/S Equity Fund, Managed Futures Fund and Hedged Strategies Fund can be found in each Fund's current prospectus and SAI. Losing all or a portion of your investment is a risk of investing in the Fund. The following additional risks could affect the value of your investment: Certain hedging techniques and leverage employed in the management of the Funds may accelerate the velocity of possible losses. Short selling involves the risk of potentially unlimited increase in the market value of the security sold short, which could result in potentially unlimited loss for the Funds. Derivatives involve investment exposure that may exceed the original cost and a small investment in derivatives could have a large potential impact on the performance of the Funds. Options held in the Funds may be illiquid and the fund manager may have difficulty closing out a position. Exposure to the commodities markets through investment in managed futures programs may subject the Fund to greater volatility than investment in traditional securities. Fixed Income instruments are exposed to credit and interest rate risks. Investing in lower-rated ("high-yield") debt securities involves special risks in addition to the risks associated with investments in higher-rated debt securities, including a high degree of credit risk and liquidity risk. The Funds may also invest in: smaller capitalized companies-subject to more abrupt or erratic market movements than larger, more established companies; foreign securities, which involve currency risk, different accounting standards and are subject to political instability; securities limited to resale to

qualified institutional investors, which can affect their degree of liquidity; shares of other investment companies (affiliated) that invest in securities and styles similar to the Funds, resulting in a generally higher investment cost than from investing directly in the underlying shares of these funds; shares of other non-affiliated investment companies primarily including ETFs. The Funds intend to utilize these individual securities and hedging techniques in matched combinations that are designed to neutralize or offset the individual risks of employing these techniques separately. Some of these matched strategies include merger arbitrage, long/short equity, convertible bond arbitrage and fixed-income arbitrage. There is no assurance that these strategies will protect against losses. Because the Funds are fund-of-funds, your cost of investing in the Funds will generally be higher than the cost of investing directly in the shares of the mutual funds in which it invests.

## **ITEM 9: DISCIPLINARY INFORMATION**

There is no material, legal or disciplinary event to disclose related to Hatteras' business or its management.

## **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Hatteras Funds, LLC is a wholly-owned subsidiary of RCS Advisory Services, LLC, which is an operating subsidiary of RCS Capital Corporation. RCS Capital Corporation is a publicly traded company listed on the New York Stock Exchange.

Hatteras Capital Distributors, LLC ("HCD"), a limited use FINRA member broker-dealer is a wholly owned subsidiary of Hatteras Funds, LLC. HCD may act as a distributing agent or placement agent for the Hatteras funds and earn fees in connection with the servicing of investors in those funds. It should be noted that certain directors, officers and employees of Hatteras Funds, LLC, are also registered representatives of HCD.

Despite these affiliations, Hatteras exercises completely independent judgment in the management of the Funds' investments, and has mitigated potential conflicts of interest arising from its affiliations.

## **ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

Hatteras has adopted a code of ethics that complies with SEC Rule 204A-1 under the Investment Advisers Act, including personal securities trading policy as well as standards of employee conduct. The Code of Ethics governs personal securities transactions of Access Persons of Hatteras that may pose a conflict of interest with the funds managed by Hatteras. Under the Code of Ethics, Hatteras personnel deemed to be Access Persons are required to report quarterly all their personal securities transactions and to request pre-clearance for certain types of transactions including private placements. Currently, all Hatteras employees are deemed access persons. Hatteras will provide a copy of its Code of Ethics upon request. For a complete copy of the Hatteras Code of Ethics, please call (919) 846-2324 or (888) 363-2324 and ask for the Compliance Department.

In general, Hatteras directors, officers and employees may from time to time purchase or sell securities that Hatteras recommends to the funds it manages. These purchases or sales must be affected in accordance with Hatteras' Insider Trading policies and Code of Ethics, which includes a personal trading policy. Hatteras' personal trading policy prohibits Access Persons from purchasing equities, corporate bonds, options and IPOs and mandates written pre-clearance for all Access Person security trades (excluding ETFs, ETN's, mutual fund shares and a limited number of other holdings). Personal securities transactions will generally not be allowed if the transaction would be made at the same time as or near the same time as a trade in the same security on behalf of a fund managed by Hatteras. All transactions by Access Persons in mutual funds where Hatteras (or an affiliate) serves as adviser, must receive written pre-clearance.

All Hatteras Access Persons must submit on an annual basis a complete listing of all personal securities holdings and must certify annually that they have read, understand and have complied with the Hatteras code of ethics.

Hatteras' Insider Trading policy prohibits any director, officer or employee from personally trading on non-public information, including confidential fund information. Hatteras' code of ethics sets forth conduct standards, requires all employees to comply with the federal securities laws, protect material non-public information, and report to Hatteras' Chief Compliance Officer any code of ethics violations. Violations of its code of ethics can result in serious sanctions, up to and including dismissal from employment.

In addition, Hatteras has strict policies with respect to the receipt of gifts by, or entertainment of, firm employees. Hatteras employees are prohibited from accepting gifts greater than \$100. All gifts, regardless of their value, must be reported promptly to Hatteras' Compliance Department. Reasonable entertainment by Hatteras' employees is permitted as long as the entertainment is not based or conditioned on the sales of Hatteras products or services. Additionally, reasonable entertainment of Hatteras' employees is permitted if it is neither so frequent nor so extensive as to raise any question of

appropriateness. Hatteras' Compliance Department and senior management actively monitor compliance with these policies.

Certain of Hatteras' business relationships may give rise to conflicts of interest or perceived conflicts of interest with the firm. Hatteras employees and principals incur meal and entertainment expenses involving or relating to consultants and fiduciaries that are reimbursed by the firm. Hatteras employees and principals may individually make charitable and political contributions to these consultants and fiduciaries or related organizations.

These arrangements may create a conflict of interest in connection with the consultant's or fiduciary's recommendation of Hatteras' products to a client or prospect. It is Hatteras' policy to limit these activities to generally accepted business practices consistent with its fiduciary responsibilities. In no instance, however, are Hatteras employees and principals permitted to seek to improperly influence these consultants and fiduciaries as a result of these expenditures, or attempt to interfere with the consultants' and fiduciaries' independent decision making.

Hatteras recognizes the importance of protecting the non-public personal information when providing advisory and other services. Please contact Hatteras or visit its website at [www.hatterasfunds.com](http://www.hatterasfunds.com) for more information on, or for a copy of, its privacy policies. Hatteras does not sell or provide non-public personal information for marketing purposes to others.

## **ITEM 12: BROKERAGE PRACTICES**

Hatteras has a fiduciary obligation to seek to obtain best execution on behalf of each client (fund), and brokers are selected with a view to obtaining best execution of transactions. This obligation applies to all circumstances where Hatteras has discretion to trade on behalf of a client (fund) account.

In accordance with the terms of its investment management agreement with the funds managed by Hatteras, Hatteras, either directly or via a fund's sub-advisor, places and executes orders for the purchase and sale of securities. In general, investment decisions for each fund are made independently and are made with specific reference to the individual needs and objectives of each fund.

It is the policy of the Funds to obtain the best results in connection with affecting its portfolio transactions taking into account factors similar to those expected to be considered by Hatteras. In most instances, certain Funds will purchase interests in a Portfolio Fund or investment security directly from the Portfolio Fund or investment

security, and such purchases by the Funds may be, but are generally not, subject to transaction expenses. Nevertheless, the Funds contemplate that; consistent with the policy of obtaining the best net result, any brokerage transactions of the Funds may be conducted through affiliates of Hatteras.

Hatteras must seek to obtain best execution, which the SEC generally describes as a duty to execute securities transactions so that a client's total costs or proceeds in each transaction are the most favorable under the circumstances. The SEC also has stated that when seeking best execution the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution. Accordingly, Hatteras will consider the full range and quality of a broker's services, including execution capability, commission rate, financial responsibility, and responsiveness to the Adviser. Hatteras may also periodically and systematically evaluate the performance of broker-dealers executing their transactions. Hatteras will seek to obtain best execution for brokerage transactions for the Funds, as its client.

Additionally, Hatteras may utilize a broker/dealer to act as an agent in a private transaction, at which time Hatteras will determine the broker/dealer to be used and may negotiate the commission to be paid. Hatteras may utilize the investment banking services of a nonaffiliated broker/dealer to introduce investment opportunities to the funds managed by Hatteras. In this scenario, the investment bank is typically compensated on a contingency basis by the entity that is raising capital. Hatteras has not, but may, negotiate on the compensation earned by the investment bank in this type of transaction. Additionally, Hatteras has in place guidelines (17d-1 procedures) that must be followed to provide assurance that a fund and its affiliated persons do not engage in prohibited joint transactions in connection with the fund's investment activities, e.g., primary and secondary investments, direct debt/equity investments and investments in listed private equity vehicles.

Hatteras does not directly utilize soft dollars or generate soft dollar credits via trades with brokers. Sub-Advisors to the funds may utilize soft dollars or generate soft dollar credits. Each sub-advisor is required to adhere to the Hatteras Soft Dollar Arrangement Policies. Any soft dollar arrangements are disclosed to the fund's respective board and appropriate reporting of any such soft-dollar or "mixed-use" credits and expenses are reported on a quarterly basis. In addition, it is currently the policy of Hatteras to prohibit directed brokerage arrangements.

When Hatteras determines that it would be appropriate for one or more funds managed by Hatteras to participate in an investment transaction in the same investment at the same time, it will attempt to aggregate, place and allocate orders on a basis that Hatteras believes to be fair and equitable, consistent with its responsibilities under applicable law. Decisions in this regard are necessarily subjective and there is no requirement that all

funds participate, or participate to the same extent as other accounts, in all investments or trades. However, no participating entity or account will receive preferential treatment over any other and Hatteras will take steps to ensure that no participating entity or account will be systematically disadvantaged by the aggregation, placement and allocation of orders and investments. Situations may occur, however, where a fund managed by Hatteras could be disadvantaged because of the investment activities conducted by Hatteras for other funds. Such situations may be based on, among other things, the following: (1) legal restrictions or other limitations on the combined size of positions that may be taken for the Hatteras Funds, thereby limiting the size of the Hatteras Funds' positions or the availability of the investment opportunity; (2) the difficulty of liquidating an investment for the Hatteras Funds where the market cannot absorb the sale of the combined positions; and (3) the determination that a particular investment is warranted only if hedged with an option or other instrument and there is a limited availability of such options or other instruments. In particular, the Hatteras Funds may be legally restricted from entering into "joint transactions" (as defined in the 1940 Act) with respect to the securities of an issuer without first obtaining exemptive relief from the SEC.

### **ITEM 13: REVIEW OF ACCOUNTS**

The Funds are reviewed on a periodic basis by each respective Fund's Investment Committee or Portfolio Management team detailed below.

Master Fund – Investment Committee Members from Hatteras: David B. Perkins, CEO, and Frank A. Burke, Director of Portfolio Management. The focus of these reviews is to confirm performance consistency with objectives and guidelines associated with the applicable registration statement. Reviews are also conducted as needed to update and confirm compliance with any new regulations, guidelines, or restrictions as outlined in the registration statement.

Limited Partners of the Feeder Funds will receive unaudited capital balance reports and/or account statements regarding their investment in the Feeder Funds at least monthly from the respective funds' transfer agent. In addition, Limited Partners will receive annual audited financial statements and be able to access a quarterly performance letter and other information at [hatterasfunds.com](http://hatterasfunds.com).

LSVC Fund – Investment Committee Members: David B. Perkins, CEO; Robert L. Worthington, President; J. Michael Fields, COO; and Frank A. Burke, Director of Portfolio Management.

VCCI Fund II - Investment Committee Members: David B. Perkins, CEO; Robert L. Worthington, President; J. Michael Fields, COO; and Frank A. Burke, Director of Portfolio Management.

Hatteras GPEP Fund - Investment Committee Members from Hatteras: David B. Perkins, CEO; and Robert L. Worthington, President.

GPEP Institutional Fund - Investment Committee Members from Hatteras: David B. Perkins, CEO; and Robert L. Worthington, President.

GPEP Fund II – Investment Committee Members from Hatteras: David B. Perkins, CEO; and Robert L. Worthington, President.

Limited Partners of the LSVC Fund and Hatteras GPEP Fund will receive unaudited capital balance reports regarding their investment in the funds at least quarterly and annual audited financial statements. Investors in VCCI Fund II, GPEP Institutional Fund and GPEP Fund II will receive unaudited capital balance reports and/or account statements regarding their investment in these funds at least quarterly. In addition, investors will receive unaudited semi-annual financial statements and audited annual financial statements.

The Disciplined Opportunity Fund: Portfolio Managers: Mitchell D. Eichen, Glenn A. Myers, and John Longo from Acertus Capital Management, LLC.

The Hatteras Alternative Mutual Funds Trust (consisting of Hatteras Alpha Hedged Strategies Fund, Hatteras Long/Short Equity Fund, Hatteras Long/Short Debt Fund, Hatteras Managed Futures Strategies Fund, Hatteras Hedged Strategies Fund): Portfolio Managers: Michael P. Hennen, Director of Portfolio Management and Roger Tyler Powers, III, Director of Portfolio Management.

The Underlying Funds Trust: Portfolio Managers: Michael P. Hennen, Director of Portfolio Management and Roger Tyler Powers, III, Director of Portfolio Management.

Shareholders in the mutual funds are provided with monthly, quarterly, semi-annual and annual reports.

The focus of these reviews is to confirm performance consistency with objectives and guidelines associated with the applicable registration statement. Reviews are also conducted as needed to update and confirm compliance with any guidelines or restrictions as outlined in the registration statement.

## **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

Hatteras may enter into compensation arrangements with solicitors for new business, including arrangements with its affiliates. Any solicitation arrangements will comply with Rule 206(4)-3 under the Investment Advisers Act of 1940 pursuant to which persons introducing new client accounts may receive a portion of the advisory fee generated by the account for a period of time that varies on a case-by case basis.

Hatteras may pay fees (out of its revenue received for managing the mutual funds) to certain mutual fund distribution platforms sponsored by non-affiliated broker-dealers (i.e., “mutual fund supermarkets”) for certain services associated with servicing clients which may invest in the mutual funds through the respective platform.

Hatteras may assist some solicitors in defraying costs of attending its due diligence and educational meetings. Hatteras may sponsor due diligence trips where solicitors may conduct due diligence and attend presentations by Hatteras’ associates and managers. Hatteras may sponsor lunches and/or dinners during due diligence trips. Hatteras will seek to ensure that the locations of the meetings are appropriate to their purpose. Attendance at the meetings is not conditioned on the achievement of any previously specified sales target. Practical and reasonable expense reimbursements may be applied to the travel and lodging expenses of those conducting due diligence, however, there will be no cash compensation paid to any financial advisors in connection with their attendance at the meetings (e.g., appearance fees or attendance fees). Financial advisors will not receive any non-cash compensation in connection with their attendance at any meeting, nor will Hatteras gift any leisure activities such as golf, theater tickets, etc.

## **ITEM 15: CUSTODY**

Hatteras does not have actual custody of any client account or any client funds or securities.

Hatteras may be deemed to have custody under Investment Advisers Act Rule 206(4)-2, as amended, in relation to the Funds Hatteras manages. Actual custody of all fund assets is provided by a qualified custodian independent of Hatteras and its affiliates. Hatteras complies with Rule 206(4)-2 in these instances by ensuring that an independent public accountant audits the pooled investment vehicles annually and the audited financial statements are distributed to the investors in the pools, within 120 days of the fiscal year end of each fund and within 180 days of the fiscal year end of each fund of funds.

## **ITEM 16: INVESTMENT DISCRETION**

The accounts Hatteras manages are discretionary accounts. Hatteras provides investment management services to registered investment companies and private funds (together the “Funds”). The investments of the Funds are managed in accordance with the investment objectives, strategies and guidelines as outlined in the current registration statement and are not tailored to any particular investor in the Funds. Hatteras does not provide individualized investment advice to investors.

## **ITEM 17: VOTING CLIENT SECURITIES**

A copy of Hatteras’ complete proxy voting policies and procedures may be obtained upon request by calling, toll-free, (888) 363-2324. Hatteras’ Policies and Procedures pursuant to Rule 206(4)-6 under the Advisors Act relating to Proxy Voting are summarized below.

Generally, Hatteras, through either a member of Portfolio Management, one of the sub-advisors of the funds, or in consultation with a sub-advisor of the funds, will conduct a thorough review of and analysis of the underlying company’s proxy statements. The fundamental purpose that underlies the proxy voting policies and procedures is to ensure that each vote will be in a manner, which reflects the best interest of the Funds and, in Hatteras’ reasonable belief, maximizes the value of the funds’ investment.

### Mutual Funds

Hatteras has engaged Broadridge and Glass Lewis proxy voting services to establish an independent source to vote proxies on behalf of the mutual funds.

Except for conflicts and as noted in Hatteras’ proxy voting guidelines, the Glass Lewis, & Co., LLC Proxy Paper Guidelines for the 2015 Proxy Season and Investment Manager Policy, an addendum to the Proxy Paper Guidelines (the “Guidelines”) have been incorporated into the Hatteras proxy guidelines.

The Guidelines are designed to maximize returns for investment managers by voting in a manner consistent with such managers’ active investment decision-making. The Guidelines are designed to increase investor’s potential financial gain through the use of the shareholder vote while also allowing management and the board discretion to direct the operations of the firm.

The Guidelines will ensure that all issues brought to shareholders are analyzed in light of the fiduciary responsibilities unique to investment advisors and investment companies on behalf of individual investor clients including mutual fund shareholders. The Guidelines

will encourage the maximization of return for such clients through identifying and avoiding financial, audit and corporate governance risks. This document sets forth the proxy voting policy and guidelines of Glass Lewis, & Co., LLC. The Guidelines were developed based on Glass Lewis' experience with proxy voting and corporate governance issues and are not tailored to any specific client. Moreover, the Guidelines are not intended to be exhaustive and do not include all potential voting issues.

When a Glass Lewis recommendation is not available, Hatteras will rely on its proxy voting guidelines detailed in Hatteras' Proxy Voting Policies and Procedures. The policies and procedures were developed with the recognition that a company's management is entrusted with the day-to-day operations of the company, as well as its long-term strategic direction, subject to the oversight of the company's board of directors. Accordingly, Hatteras believes that the recommendation of management on most issues deserves weight in determining how proxy issues should be voted. The company's position, however, will not be supported in any situation where Hatteras reasonably believes that it is not in the best interest of the Funds, and Hatteras reserves the right to vote contrary to management where it believes a particular proxy proposal may adversely affect the company.

#### Closed-End and Private Funds

The Funds invest substantially all of their assets in Portfolio Funds and other investment securities, which include, but are not limited to, private partnerships, limited liability companies, direct company investments, investment securities or similar entities. Investments in Portfolio Funds do not typically convey traditional voting rights to the holder and the occurrence of corporate governance or other notices for this type of investment is substantially less than that encountered in connection with registered equity securities. On occasion, however, Hatteras and/or the Funds may receive notices from such Portfolio Funds seeking the consent of holders in order to materially change certain rights within the structure of the security itself or change material terms of the Portfolio Funds' limited partnership agreement, limited liability company operating agreement or similar agreement with investors. To the extent that the Funds receive notices or proxies from Portfolio Funds (or receives proxy statements or similar notices in connection with any other portfolio securities), the Funds have delegated proxy voting responsibilities with respect to the Funds' portfolio securities to Hatteras, with the direction that proxies should be voted consistent with the Funds' best economic interests. In general, Hatteras believes that voting proxies in accordance with the policies below will be in the best interests of the Funds. If an analyst, trader or partner of Hatteras believes that voting in accordance with stated proxy-voting guidelines would not be in the best interests of a fund, the proxy will be referred to Hatteras' Chief Compliance Officer for a determination of how such proxy should be voted.

If a proxy includes a matter to which none of the specific policies described above or in Hatteras' stated proxy-voting guidelines is applicable or a matter involving an actual or potential conflict of interest as described below, the proxy will be referred to Hatteras' Chief Compliance Officer for a determination of how such proxy should be voted.

In exercising its voting discretion, Hatteras and its employees will seek to avoid any direct or indirect conflict of interest presented by the voting decision. If any substantive aspect or foreseeable result of the matter to be voted on presents an actual or potential conflict of interest involving Hatteras (or an affiliate of Hatteras), any issuer of a security for which Hatteras (or an affiliate of Hatteras) acts as sponsor, advisor, manager, custodian, distributor, underwriter, broker or other similar capacity or any person with whom Hatteras (or an affiliate of Hatteras) has an existing material contract or business relationship not entered into in the ordinary course of business (Hatteras and such other persons having an interest in the matter being called "Interested Persons"), Hatteras will make written disclosure of the conflict indicating how Hatteras proposes to vote on the matter and its reasons for doing so. If Hatteras does not receive timely written instructions as to voting or non-voting on the matter, Hatteras may take any of the following actions which it deems to be in the best interests of the Funds: (i) engage an independent third party to determine whether and how the proxy should be voted and vote or refrain from voting on the matter as determined by the third party; (ii) vote on the matter in the manner proposed to the Independent Directors (if applicable) if the vote is against the interests of all Interested Persons; or (iii) refrain from voting on the matter.

The Funds (that are registered under the 1940 Act) are required to file Form N-PX, with their complete proxy voting record for the twelve months ended June 30<sup>th</sup>, no later than August 31<sup>st</sup> of each year. Each of the Funds' Form N-PX filings is available: (i) without charge, upon request, by calling (888) 363-2324, or (ii) by visiting the SEC's website at [www.sec.gov](http://www.sec.gov).

## **ITEM 18: FINANCIAL INFORMATION**

Hatteras does not require or solicit prepayment of more than \$1,200 in fees per fund, six months or more in advance and therefore is not required to include a balance sheet with this brochure. Hatteras has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to the funds managed by Hatteras, and has not been the subject of a bankruptcy proceeding.

## **SUMMARY OF BUSINESS CONTINUITY PLANS**

Hatteras has a disaster recovery and business continuation plan in place to help the firm

address potential emergencies. The program is designed to provide Hatteras' most critical portfolio management, operations and computer system functions with a measure of protection against potential disasters. The goal of the program is to safeguard the assets of the funds managed by Hatteras against major or minor external threats. Hatteras' disaster recovery program targets recoverability -- the ability of information systems to overcome any short- or long-term disruption; redundancy-- the duplication of key information systems processes to prevent loss of data; and reliability -- the assurance that Hatteras staff members will be able to function immediately following most external problems and within 24 hours even after the most extreme problems. Hatteras engages in an ongoing process of upgrading and testing this program in an effort to ensure that it is capable of meeting its goals. Additional details on the specific elements of the program are available upon request.