

# Emerging Sovereign Group LLC

## Part 2A of Form ADV

### The Brochure

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This brochure provides information about the qualifications and business practices of Emerging Sovereign Group LLC (the “Adviser”). If you have any questions about the contents of this brochure, please contact Kamand Daniels at 212-813-4600. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

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

The Adviser is an investment adviser registered with the SEC (a “registered investment adviser”). This registration does not imply a certain level of skill or training.

## Material Changes

The Adviser's most recent update to Part 2 of Form ADV was made in November 2016. There have been no material changes made to this Brochure since the aforementioned other-than-annual amendment. However, the Adviser has made some routine updates and clarifying changes to the Brochure.

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## Advisory Business

The Adviser, a Delaware limited liability company, was founded in April 2002. The sole owner of the Adviser is Emerging Sovereign Group Partners LP ("ESG Partners") and its general partner is Emerging Sovereign Group GP, LLC ("ESG Partners GP"). The principals and equity owners of the Adviser, ESG Partners and ESG Partners GP, are J. Kevin Kenny, Jr., Mete Tuncel and Jason Kirschner (collectively, the "ESG Principals"). Tiger Partners L.L.C. ("Tiger") has an equity interest in the Adviser, ESG Partners and ESG Partners GP, however, Tiger is not involved in the management of the Adviser.

From inception in 2002 to date, Mr. Kenny has served as the Chief Investment Officer of the Adviser. The ESG Principals manage and control the day-to-day ordinary course of business operations of the Adviser, and have sole authority to make investment, holding and disposition decisions and all other investment-related decisions involving the funds managed by the Adviser. Historically, Mr. Kenny has also served as the managing member of the Adviser and its affiliates

except for the period from July 2011 through October 2016 during which time TC Group, L.L.C., an affiliate of The Carlyle Group, served as managing member.

The Adviser (through the ESG Principals and their delegates) provides investment advisory services on a discretionary basis to Advisory Clients. “Advisory Client” means any account or fund for which the Adviser provides investment advice and/or places trades on a discretionary basis, and primarily includes commingled investment vehicles intended for institutional investors and other sophisticated investors. Persons who invest in the Advisory Clients are generally referred to herein as “Investors.” Currently, the Adviser provides investment advisory services to Advisory Clients formed as commingled private funds (each a “Fund” and, collectively, the “Funds”):

- ESG Cross Border Equity Fund LP
- ESG Cross Border Equity Offshore Fund Ltd.
- ESG Cross Border Equity Master Fund Ltd.
  
- ESG Credit Macro Event Fund LP
- ESG Credit Macro Event Offshore Fund Ltd.
- ESG Credit Macro Event Master Fund Ltd.
  
- ESG Domestic Opportunity Fund LP
- ESG Domestic Opportunity Offshore Fund Ltd.
- ESG Domestic Opportunity Master Fund Ltd.
  
- ESG Intrepid Fund LP
- ESG Intrepid Offshore Fund Ltd.
- ESG Intrepid Master Fund Ltd.
  
- ESG Nexus Fund LP
- ESG Nexus Offshore Fund Ltd.
- ESG Nexus Master Fund Ltd.
  
- N2 Master Fund Ltd.

The Funds are private investment funds that are offered to high-net-worth, financially sophisticated individual investors and institutional investors. In providing such services to the Funds, the Adviser formulates its investment objective, directs and manages the investment and reinvestment of each Fund’s assets and provides reports to investors. The Adviser manages the assets of each Fund in accordance with the terms of the governing documents applicable to each Fund.

From time to time, the Adviser may also provide investment advisory services with respect to certain separately managed account clients or ‘funds of one’ (together, “Separate Accounts”). Such other Separate Accounts and the Funds may have investment objectives or may implement investment strategies that are identical or substantially similar to each other. Accordingly, these Advisory Clients may invest in many of the same securities and issuers.

The Adviser provides advice to Advisory Clients based on their respective specific investment objectives and strategies. Under certain limited circumstances, the Adviser may agree to tailor advisory services to the individual needs of a particular Advisory Client and in such circumstances, Advisory Clients may impose restrictions on investing in certain securities or may work with the Adviser to establish risk parameters or impose position limitations on such Advisory Client's account.

As of December 31, 2016, the Adviser managed \$3,927,772,746 in regulatory assets under management on a discretionary basis.

## **Fees and Compensation**

### **MANAGEMENT FEES**

The Adviser generally charges each Fund an asset-based investment management fee (a "Fixed Fee") based on the value of that Fund's assets under management and a performance-based fee or allocation ("Performance Compensation").

The Adviser receives a Fixed Fee of 1.25% per annum, paid quarterly, in advance, based on the net assets of each Fund (without accrual of the Performance Compensation) as of the first day of the quarter for the following Funds:

- ESG Domestic Opportunity Fund LP
- ESG Domestic Opportunity Offshore Fund Ltd.
- ESG Domestic Opportunity Master Fund Ltd.
  
- ESG Intrepid Fund LP
- ESG Intrepid Offshore Fund Ltd.
- ESG Intrepid Master Fund Ltd.

The Adviser receives a Fixed Fee of 1.25% per annum, paid quarterly, in advance, based on the net assets of each Fund (without accrual of the Incentive Allocation) attributable to Sub-Class 1/Series 1 shares and a Fixed Fee of 2.0% attributable to Sub-Class 2/Series 2 shares for the following Funds:

- ESG Cross Border Equity Fund LP
- ESG Cross Border Equity Offshore Fund Ltd.
- ESG Cross Border Equity Master Fund Ltd.

If additional contributions are made to the foregoing Funds during the quarter, the Fixed Fee will be prorated and charged at the time of such contribution. The Fixed Fee will be prorated for any period that is less than a full fiscal quarter.

The Adviser receives a Fixed Fee of 1.25% per annum, paid monthly, in advance, based on the net assets of each Fund (without accrual of the Performance Compensation) as of the first day of the month for the following Funds:

- ESG Credit Macro Event Fund LP
- ESG Credit Macro Event Offshore Fund Ltd.
- ESG Credit Macro Event Master Fund Ltd.
- ESG Nexus Fund LP
- ESG Nexus Offshore Fund Ltd.
- ESG Nexus Master Fund Ltd.
- N2 Master Fund Ltd.

If the fund structure is a master-feeder, the Adviser will receive the Fixed Fee at the master fund level. To the extent the Fixed Fee is paid to the Adviser at the master fund level, no Fixed Fee will be paid at the feeder fund level. Furthermore, any prepaid but unearned Fixed Fee will be refunded to an Investor in the applicable Fund. The Adviser generally determines the amount of the relevant refund on a pro rata basis, based upon the portion of the relevant period during which it provided services.

### **PERFORMANCE COMPENSATION**

The Adviser (or an affiliated entity) receives Performance Compensation equal to 20% of the net profits, if any, subject to a “loss carry forward” provision for the following Funds:

- ESG Cross Border Equity Fund LP
- ESG Cross Border Equity Offshore Fund Ltd.
- ESG Cross Border Equity Master Fund Ltd.
- ESG Domestic Opportunity Fund LP
- ESG Domestic Opportunity Offshore Fund Ltd.
- ESG Domestic Opportunity Master Fund Ltd.
- ESG Intrepid Fund LP
- ESG Intrepid Offshore Fund Ltd.
- ESG Intrepid Master Fund Ltd.

The Adviser (or an affiliated entity) receives Performance Compensation equal to 17.5% for the following Funds:

- ESG Credit Macro Event Fund LP
- ESG Credit Macro Event Offshore Fund Ltd.
- ESG Credit Macro Event Master Fund Ltd.
- ESG Nexus Fund LP
- ESG Nexus Offshore Fund Ltd.
- ESG Nexus Master Fund Ltd.
- N2 Master Fund Ltd.

Performance Compensation is payable as of the end of each year and upon withdrawals. Performance Compensation is charged by the Adviser (or an affiliated entity) in compliance with Rule 205-3 under the Investment Advisers Act of 1940, as amended (the “Advisers Act”).

### **WITHDRAWAL NOTICES**

Investors in the following Funds may withdraw on the last day of a calendar quarter on 60 days written notice:

- ESG Domestic Opportunity Fund LP
- ESG Domestic Opportunity Offshore Fund Ltd.
- ESG Domestic Opportunity Master Fund Ltd.
  
- ESG Intrepid Fund LP
- ESG Intrepid Offshore Fund Ltd.
- ESG Intrepid Master Fund Ltd.
  
- 
  
- ESG Cross Border Equity Fund LP
- ESG Cross Border Equity Offshore Fund Ltd.
- ESG Cross Border Equity Master Fund Ltd.

Investors in the following Funds may withdraw on the last day of a calendar month on 30 days written notice:

- ESG Credit Macro Event Fund LP
- ESG Credit Macro Event Offshore Fund Ltd.
- ESG Credit Macro Event Master Fund Ltd.
  
- ESG Nexus Fund LP
- ESG Nexus Offshore Fund Ltd.
- ESG Nexus Master Fund Ltd.
  
- N2 Master Fund Ltd.

The Adviser, in its sole discretion, may offer different fees or withdrawal schedules to qualified Investors that are members, principals, employees or affiliates of the Adviser or relatives of such persons, and for certain large or strategic investors.

In addition to the Adviser’s fees, Investors will bear indirectly the fees and expenses charged to the Funds. Each Fund sets forth its specific fee structure (including how it charges fees) along with the additional operational expenses in a confidential explanatory memorandum or similar offering document provided to prospective investors. Fees and expenses that are typically borne by the Funds generally include, without limitation, (i) fees paid to the Adviser, (ii) fees paid to the Fund’s third-party administrator, (iii) independent directors’ fees, (iv) legal, accounting, auditing (including financial statements) and other professional expenses, (v) certain compliance and

reporting expenses and expenses attributable to regulatory filings which are made with respect to the assets of the Funds (including Section 13, Section 16 and non-U.S. position reporting filings), (vi) certain out of pocket fees, costs and expenses, if any, incurred in connection with legal and regulatory compliance with U.S. federal, state, local, non-U.S. or other law or regulation (including for example, The Foreign Account Tax Compliance Act), (vii) cost of insurance (including D&O insurance) and other professional expenses, (viii) research expenses (including research-related travel and paid subscriptions and research consultants such as expert network firms), (ix) investment expenses such as commissions, trading and portfolio services and support (including software and applications), (x) interest on margin accounts and other indebtedness, (xi) taxes, and (xii) custodial fees, bank service fees and other expenses related to the purchase, sale or transmittal of the Fund's assets as shall be determined by the applicable Fund in its sole discretion. The brokerage fees and expenses are also discussed in more detail in Item 12 "Brokerage Practices" below. The Funds are generally organized in a "master-feeder" structure, so "feeder funds" will bear a pro rata share of the expenses associated with the related "master fund". Advisory Clients and Investors should review all fees charged by the Adviser and its affiliates, custodians and brokers and others to fully understand the total amount of fees to be paid. Fees and expenses paid to third parties in connection with the acquisition or disposition of investments are borne by the Funds.

Common expenses frequently will be incurred on behalf of one or more Funds. The Adviser seeks to allocate those common expenses among the Funds in a manner that is fair and reasonable over time. However, expense allocation decisions will involve potential conflicts of interest (e.g., an incentive to favor accounts that pay higher incentive fees, or conflicts relating to different expense arrangements with certain Funds). Under its current expense allocation policies, the Adviser generally categorizes a common expense as pertaining to a particular business unit (i.e., long/short equity, macro, etc.) and then allocates the expense among the Funds within such business unit on a pro rata basis based on assets under management. The Adviser may, however, use other methods to allocate certain common expenses among the Funds if it deems another method more appropriate based on the relative use of a product or service, the nature or source of the product or service, the relative benefits derived by the Funds from the product or service, or other relevant factors. Nonetheless, the portion of a common expense that the Adviser allocates to a Fund for a particular product or service, may not reflect the relative benefit derived by the Fund from that product or service in any particular instance. The Adviser's expense allocations often depend on inherently subjective determinations and, accordingly, expense allocations made by the Adviser in good faith will be final and binding on the Funds.

From time to time, the Adviser may also provide investment advisory services with respect to certain Separate Accounts. Such other Separate Accounts may also be subject to fee and/or expense arrangements and other terms that are individually negotiated with each such client. These relationships generally involve significant account minimums.

## **Performance Based Fees and Side-by-Side Management**

The Adviser manages multiple Advisory Client accounts. Further, as stated in the "Fees and Compensation" section above, the Adviser (or an affiliated entity) receives Performance Compensation based on a share of capital gains on or capital appreciation of the Advisory Client's assets.

The fact that the Adviser is compensated based on the trading profits may create an incentive for the Adviser to make investments on behalf of Advisory Clients that are riskier or more speculative than would be the case in the absence of such compensation. The level of Performance Compensation described above may also vary among the Funds. The Adviser may receive higher performance-based compensation from certain Funds. In addition, the Performance Compensation received by the Adviser is based primarily on realized and unrealized gains and losses. As a result, the Performance Compensation earned could be based on unrealized gains that the Advisory Client may never realize.

Accordingly, the Adviser has adopted and implemented written policies and procedures intended to address conflicts of interest that may arise relating to the management of multiple accounts. For a variety of reasons, investment opportunities and specific trades may not be allocated to an account or may be allocated differently among accounts (e.g., not on a pro rata basis). Specifically, the Adviser has adopted a written policy pursuant to which it seeks to allocate investment opportunities and specific trades among Funds in a fair and equitable manner, bearing in mind, among other things, the size, investment objectives, risk tolerance, return targets, diversification considerations, permissible and preferred asset classes, and liquidity needs of each Fund. Final allocation decisions are under the purview of the Adviser.

As noted above, the Adviser may provide investment advisory services to Separate Accounts that invest *pari passu* or with a similar investment strategy as the Funds. Such Separate Accounts may have direct transparency into their respective portfolios, which may be similar to the Funds' respective portfolios. Investors in a Fund may not have the same or similar transparency into a Fund's portfolio.

## **Types of Clients**

The Adviser provides investment advice to the Funds, as stated in the "Advisory Business" section above. From time to time, the Adviser also may provide investment advisory services with respect to certain Separate Accounts.

The Funds are pooled private investment funds that are offered to high-net-worth, financially sophisticated individual investors and institutional investors. Interests in the Funds are not registered under the Securities Act of 1933, as amended (the "Securities Act"), and such Funds are not registered under the Investment Company Act of 1940, as amended (the "Investment Company Act"). Accordingly, interests in the Funds are offered and sold exclusively to Investors satisfying the applicable eligibility and suitability requirements either in private transactions within the United States or in offshore transactions.

As noted above, the Funds are generally organized in a "master-feeder" structure, where certain "feeder funds" (for example, an onshore private investment Delaware limited partnership and an offshore Cayman Islands exempted company) invest substantially all of their assets into a related "master fund," although the feeder funds may make direct investments for tax, legal or regulatory reasons.

Subject to the discretion of the Fund to accept a lesser amount, each Fund sets forth the minimum investment threshold in a confidential explanatory memorandum or similar offering document



provided to prospective investors.

The Adviser and the Funds have entered into and may in the future enter into additional letter agreements or other similar agreements with one or more Investors of a Fund whereby such Investor may be subject to terms and conditions that are additional and/or different than those set forth in the offering memorandum for the given Fund. For example, such terms and conditions may provide for special rights to make future investments in the Fund; special withdrawal/redemption rights, relating to frequency or notice; a waiver or rebate in fees to be paid; rights to receive reports from the Fund on a more frequent basis or that include information not provided to other Investors and such other rights, standards, waivers or modifications as may be negotiated by the Fund and such Investors. The Adviser will not be required to notify any or all of the other Investors of any such written agreements or any of the rights and/or terms or provisions thereof, nor will the Adviser be required to offer such additional and/or different rights and/or terms to any or all of the other Investors. Investors may, upon request, obtain increased transparency with respect to a Fund, which may include information about such Fund's portfolio and positions. This increased transparency may occur in various forms including, but not limited to, more frequent meetings or conferences that the Investor schedules with the Adviser, at which more in-depth discussions regarding the Fund will typically occur.

In connection with subscriptions by Investors in the Funds, the Funds may accept subscriptions from Investors who also provide services to the Funds, including brokers or individuals who are affiliated with such brokers. Relationships such as these could be viewed as creating a conflict of interest. The governing documents for the Funds do not prohibit the Adviser from engaging in any business activities with Investors who are brokers or individuals who are affiliated with brokers. As a result, the Adviser, subject to the Adviser's best execution policy, may from time to time place trades with brokers who are Investors in the Funds or individuals who are affiliated with such brokers.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

The Adviser utilizes a variety of methods and strategies to make investment decisions and recommendations. The methods of analysis include fundamental research and cyclical analysis as well as the use of carefully constructed risk management tools and approaches. The Adviser employs the following investment strategies:

ESG Cross Border Equity Fund LP ("CBEF") and ESG Cross Border Equity Offshore Fund Ltd. ("CBEOF") each invests substantially all of its assets in ESG Cross Border Equity Master Fund Ltd. (collectively, "CBE"). CBE seeks to provide non-market correlated returns primarily by investing in emerging market and global equities. By adhering to a strict investment philosophy, the Adviser seeks to generate absolute returns which should not be correlated with the performance of the U.S. equity markets. CBE is a long/short equity fund that focuses on investments in emerging markets, although it also invests globally, and its global reach may, from time to time, be significant. The Adviser combines rigorous fundamental stock selection with a carefully constructed macroeconomic overlay. CBE will seek to leverage the expertise of the Adviser to monitor the relevant macroeconomic, political and social factors in order to manage country and regional net exposures.

ESG Domestic Opportunity Fund LP (“DOF LP”) and ESG Domestic Opportunity Offshore Fund Ltd. (“DOF Ltd”) each invests substantially all of its assets in ESG Domestic Opportunity Master Fund Ltd. (collectively, “DOFM”). DOFM is a long biased emerging market equity fund that combines rigorous fundamental stock selection with a carefully constructed macroeconomic overlay. DOFM will focus on the universe of emerging market domestic demand opportunities.

ESG Intrepid Fund LP (“INT LP”) and ESG Intrepid Offshore Fund Ltd. (“INT Ltd”) each invests substantially all of its assets in ESG Intrepid Master Fund Ltd. (collectively, “INTM”). INTM is a long biased, single investor emerging market equity fund that combines rigorous fundamental stock selection with a carefully constructed macroeconomic overlay. INTM will focus on the universe of emerging market domestic demand opportunities.

ESG Credit Macro Event Fund LP (“CMEF”) and ESG Credit Macro Event Offshore Fund Ltd. (“CMEOF”) each invests substantially all of its assets in ESG Credit Macro Event Master Fund Ltd. (collectively, “CMEM”). The investment objective of CMEM is to make investments in global capital markets in an attempt to benefit from higher sovereign credit risk and deteriorating sovereign balance sheet views.

ESG Nexus Fund LP (“Nexus LP”) and ESG Nexus Offshore Fund Ltd. (“Nexus Ltd”) each invests substantially all of its assets in ESG Nexus Master Fund Ltd. (collectively, “Nexus”). Nexus and N2 Master Fund Ltd. (“N2”), a single investor fund, each seeks to achieve returns by focusing on asymmetric investment opportunities in China arising from China’s economic outlook, policy options and its effect on global markets.

The Adviser may also provide investment advisory services to Separate Accounts. Separate Accounts may have an investment strategy/objective that is substantially similar to or different from other accounts managed by the Adviser.

Notwithstanding the focus noted above, the Adviser has broad discretionary investment authority in order to maintain flexibility and capitalize on investment opportunities as they arise in all of its Advisory Clients. Additional detail on each Advisory Client’s investment strategy is included in its offering memorandum and/or operative documents.

All investing involves a risk of loss, including the risk of total loss of capital, and the investment strategies offered by the Adviser could lose money over short or even long periods. Past performance is not a guarantee of future results and individual account performance will vary. There is no assurance that an Advisory Client’s investment objectives will be achieved or that the Adviser’s investment strategies will be successful. Performance could be adversely affected by a number of different risks including but not limited to:

**Speculative Investments.** The Adviser invests in equity securities of certain publicly-traded companies that the Adviser identifies as candidates for improvement in corporate strategy, management and/or corporate governance. Such investments are highly speculative in nature and may present particular risks if the Advisory Client is not sufficiently diversified or if the relevant markets in which the Advisory Clients’ portfolio companies conduct business are particularly volatile. In addition, the companies in which the Advisory Client invests may have experienced and may continue to experience losses, and some may be financially troubled companies.

Although the Adviser will seek to play an important role in bringing about needed improvements by being an active and responsible shareholder, there can be no assurance that the Adviser will achieve these goals, or that the achievement of these goals will result in any return on the Advisory Client's investment or any return of capital invested.

**Derivatives.** The Adviser utilizes swaps and other derivative products written by broker-dealers or other financial intermediaries in connection with its fundamental equity long short investment strategy. The Adviser invests in currencies and currency forward contracts and options, primarily to hedge currency risk in non-U.S. investments. Furthermore, the Adviser may take advantage of opportunities in the area of options, futures contracts and options thereon and any other synthetic, hybrid or derivative instruments which are not presently contemplated for use on behalf of the Advisory Client accounts or which are not currently available but which may be developed to the extent such opportunities are both consistent with the Advisory Clients' investment objectives and legally permissible for each such Advisory Client.

**Initial Public Offerings.** The Adviser may purchase shares of initial public offerings ("IPOs") for eligible Advisory Client accounts. The Adviser's policy is to allocate IPOs to eligible Advisory Client accounts pro-rata, based on the accounts' assets at the time of the allocation and subject to rounding the allocated shares. Any deviations from Adviser's IPO allocation policy are fully documented and maintained in writing. The Adviser's related persons indirectly benefit from profits realized from IPOs due to their ownership interest in the Funds, certain of which may receive allocations of IPO shares. Additionally, the Adviser would benefit through its receipt of incentive fees. The eligible accounts that receive IPOs could be construed as benefiting from the allocation of IPO shares in part due to the commissions and other revenue generated from trading in all Advisory Client accounts. Broker-dealers' receipt of increased trading revenues may garner more favorable allocations of IPO shares to the Adviser. Underwriters may not sell IPO securities to certain persons, including brokers or people associated with brokers. Certain Advisory Clients of the Adviser may be ineligible to participate in the Adviser's investments in IPO securities, therefore, some Investors may not participate in any gain or loss associated with any IPO securities.

**Swaps.** Certain of the Adviser's Advisory Clients will enter into swaps or other transactions with other Advisory Clients that have similar investment objectives in order to provide all clients with similar investment objectives with roughly equivalent exposure to the same investments. This would be done where regulatory, minimum lot or size requirements or other restrictions make it difficult for a client to make or rebalance such investment directly. Such swap or other transactions could have an adverse effect on the Advisory Client by exposing it to counterparty risk from the other Advisory Clients. In addition, such transactions are potentially subject to regulation by the U.S. Commodity Futures Trading Commission. Among other things, such regulation includes requirements relating to mandatory execution and clearing of certain swaps, as well as new recordkeeping and reporting requirements. This additional regulation may increase the costs of entering into certain transactions.

**Forward Currency Contracts.** Certain of the Adviser's Advisory Clients will enter into forward currency contracts, which represent agreements to exchange non-U.S. currencies on specific future dates at predetermined rates. An Advisory Client typically enters into these contracts to manage its exposure to changes in non-U.S. exchange rates arising from investment denominated

in non-U.S. currencies. Upon entering into these contracts, risks may arise from the potential inability of counterparties to meet the terms of their contracts and from possible movements in non-U.S. exchange rates.

**Investments Related to Investors.** The Adviser may invest Advisory Client assets in securities issued by its investors or their affiliates or other entities with which the Adviser may have business relationships. No such investments are made unless the investments are in the best interests of clients and the Adviser has ensured that such investments are made in compliance with its insider trading policies and procedures.

**Liquidity Issues.** The Adviser may invest in instruments for which there is no active trading market. Moreover, many of the Adviser's investments may be held by relatively few other investors. Under adverse market or economic conditions or in the event of adverse changes in the financial condition of the issuer or of the asset, the Adviser may find it more difficult to sell such instruments when it is advisable to do so or may be forced to sell them at prices lower than if the instruments were widely held. Thus, the range of disposal strategies available to Advisory Clients may be further limited. Finally, dispositions of investments may be subject to contractual and other limitations on transfer, or other restrictions that would interfere with subsequent sales of such investments or adversely affect the terms obtainable upon a disposition.

**Fixed Income Securities.** Risks associated with investing in fixed income securities (i.e., bonds) include:

- The bond issuer's inability to pay interest or repay the bond;
- Changes in market interest rates cause the bond's value to fall;
- Illiquidity in the bond market may make the bond difficult or impossible to sell;
- The bond issuer may repay the bond prior to maturity; or
- Inflation may reduce the effective yield on the bond's interest payments

**Bonds – Call Provisions.** Many bonds, including agency, corporate and municipal bonds, and all mortgage-backed securities, contain a provision that allows the issuer to "call" all or part of the issue before the bond's maturity date. The issuer usually retains this right to refinance the bond in the future if market interest rates decline below the coupon rate. There are three disadvantages to the call provision. First, the cash flow pattern of a callable bond is not known with certainty. Second, because the issuer will call the bonds when interest rates have dropped, Advisory Clients are exposed to reinvestment rate risk – Advisory Clients will have to reinvest the proceeds received when the bond is called at lower interest rates. Finally, the capital appreciation potential of a bond will be reduced because the price of a callable bond may not rise much above the price at which the issuer may call the bond.

**Bonds – Yield Curves.** Bond portfolios typically include bonds with a range of maturity dates. In assembling a bond portfolio, the Adviser generally assumes that changes in the yield curve will occur at roughly parallel rates, that is, that interest rates on long-term bonds will move up or down in the same amount as interest rates on short-term bonds. In reality, shifts in the yield curve are unpredictable, and changes on long-term bond yields rarely move in parallel with changes to short-term bond yields. To the extent that the yield curve movements deviate from this assumption, the bond portfolio will generate results different from those intended by the Adviser.

**Bonds – Inflation.** Inflation risk results from the variation in the value of cash flows from a security due to inflation, as measured in terms of purchasing power. For example, if an Advisory Client purchases a 5-year bond in which it can realize a coupon rate of 5%, but the rate of inflation is 6%, then the purchasing power of the cash flow has declined. For all but inflation linked bonds, adjustable bonds or floating rate bonds, Advisory Clients are exposed to inflation risk because the interest rate the issuer promises to make is fixed for the life of the security. To the extent that interest rates reflect the expected inflation rate, floating rate bonds have a lower level of inflation risk.

**Bonds – High Yield.** The Adviser may invest for Advisory Clients in “high yield” or “junk” bonds, i.e. bonds that are rated in the sub-investment rating categories by credit rating agencies. High yield securities are more likely to suffer a default in interest payments, and the principal of such bonds might not be repaid on time or at all. In addition, the prices of such bonds are generally more volatile than the prices of higher rated bonds. The market is less liquid than the market for higher rated securities, which can adversely affect the prices at which these securities can be sold and may even make it impossible to sell such securities.

**Synthetic Securities.** In addition to credit risks associated with holding non-investment grade loans and high yield debt securities, Advisory Clients investing in synthetic securities will usually have a contractual relationship only with the counterparty of such synthetic securities, and not the issuer of the underlying or linked obligation (whether an equity, debt or other instrument). Advisory Clients generally will have no right to directly enforce compliance by that underlying or linked issuer nor any rights of set-off against the that issuer, nor have any voting rights with respect to the underlying or linked obligation. Advisory Clients will not benefit directly from the collateral supporting that obligation or have the benefit of the remedies that would normally be available to a holder of that obligation. In addition, in the event of insolvency of the counterparty to such a contract, Advisory Clients will be treated as a general creditor of such counterparty. As a result, concentrations of synthetic securities in any one counterparty subject these investments to an additional degree of risk with respect to defaults by the counterparty as well as by the issuer of the underlying or linked obligation.

**Investing in Foreign Securities Entails Unique Risks.** The Adviser invests for Advisory Clients in non-U.S. securities and other assets, which will give rise to risks relating to political, social and economic developments abroad, as well as risks resulting from the differences between the regulations to which U.S. and non-U.S. issuers and markets are subject. These risks include political or social instability, the seizure by foreign governments of company assets, acts of war or terrorism, withholding taxes on dividends and interest, high or confiscatory tax levels and limitations on the use or transfer of assets. In addition, enforcing legal rights in some foreign countries is difficult, costly and slow, and there are sometimes special problems enforcing claims against foreign governments.

**Investment and Repatriation Restrictions.** Some countries have laws and regulations that currently limit or preclude direct foreign investment or may increase the costs and expenses of investment. Prior government approval for foreign investments may be required under certain circumstances, and the process of obtaining these approvals may require a significant expenditure of time and resources. Repatriation of investment income, capital and the proceeds of sale by foreign investors may require governmental registration and approval in some countries.

Investments may require significant government approvals under corporate, securities, exchange control, foreign investment and other similar laws and may require financing and structuring alternatives that differ significantly from those customarily used in the United States. In addition, foreign governments from time to time impose restrictions intended to prevent capital flight, which may, for example, involve punitive taxation (including high withholding taxes) on certain securities transfers or the imposition of exchange controls making it difficult or impossible to exchange or repatriate foreign currency. These and other restrictions may make it impracticable to distribute the amounts realized from a foreign investment at all or may force the distribution in currencies other than in U.S. dollars, and therefore a portion of the distribution may be made in foreign securities or currency.

**Legal Framework and Corporate Governance.** Laws and regulations of some countries may impose restrictions that would not exist in the United States, may lack certain protections provided by U.S. law or may not be fully or consistently enforced, particularly where the other party to a dispute is a local resident or entity.

**Currency Risk.** Advisory Clients' investments may be denominated in local currencies. However, the Adviser will maintain its books and intends to pay distributions in U.S. dollars. Accordingly, fluctuations in exchange rates between the U.S. dollar and the relevant local currencies will directly affect the value of the Advisory Clients' investments and the ultimate rate of return realized by Investors. For example, several Latin American countries have had in the past dramatic fluctuations in their currency exchange rates, including large devaluations against the U.S. dollar. In addition, exchange controls have, from time to time, been implemented. There can be no assurances that there will not be a recurrence of such fluctuations or exchange controls in the currency exchange rates of any of the countries in which the portfolio intends to invest. In addition, the portfolio may incur costs or delays in connection with conversions between various currencies. The Adviser may evaluate the use of currency hedging arrangements to mitigate the risk of currency fluctuations and cause the portfolio to enter into such arrangements. However, there can be no assurance that such arrangements will be available, effective or sufficient to mitigate risk.

**Investing in Non-U.S. Securities Entails Currency Risks.** Non-U.S. securities and other assets often trade in currencies other than the U.S. dollar, and certain Advisory Clients will directly hold foreign currencies and purchase and sell foreign currencies through forward exchange contracts. Changes in currency exchange rates will affect the Advisory Client's net asset value, the value of dividends and interest earned, and gains and losses realized on the sale of investments. An increase in the strength of the U.S. dollar relative to these other currencies may cause the value of the Advisory Client's investments to decline. Some foreign currencies are particularly volatile. Foreign governments may intervene in the currency markets, causing a decline in value or liquidity of the Advisory Client's foreign currency holdings.

**Quality of Financial Reporting.** Financial reporting and financial information at the enterprise level is often not as reliable in the countries in which the Adviser invests for Advisory Clients as in other more developed regions. While there is a trend toward improved financial reporting by companies in developing countries and increased enforcement of statutes concerning financial and tax reporting, there can be no assurance that the financial information can be made as reliable as in other regions.

**Risks from Economic Conditions.** Investments in emerging markets will be impacted by economic conditions in the countries in which those companies operate. Many developing countries have a history of economic instability, and an investment's success may depend on the overall level of economic activity and political and social stability in these emerging markets. Investments in foreign companies may be adversely affected by declining economic conditions in the host country.

**Emerging Markets Often Endure High Inflation.** Higher rates of inflation generally adversely affect the economies and financial markets of developing countries and the ability of their governments to create conditions that stimulate or maintain economic growth. In addition, governmental measures to curb inflation and speculation about possible future governmental measures may contribute to the negative economic impact of inflation and may create general economic uncertainty. Future governmental economic measures, such as interest rate increases, intervention in foreign exchange markets and actions to adjust or fix currency values, may trigger or exacerbate increases in inflation, and consequently have an adverse impact on investment returns.

**Sovereign Risk.** Governments of some developing countries have exercised and continue to exercise substantial influence over many aspects of the private sector. In some cases, the government owns or controls many companies, including some of the largest, such as energy and utility companies. The policies set by these companies could have a significant effect on economic and market conditions in such countries. Moreover, the economies of these countries generally are dependent upon international trade and, accordingly, have been and may continue to be adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been and may continue to be adversely affected by economic conditions in the countries with which they trade. There is the possibility of nationalization, expropriation or confiscatory taxation, regime changes, changed or increased government regulation, economic or social instability or diplomatic developments (including war) which could affect adversely the economies of such countries or the value of investments in those countries.

**In-Kind Distributions.** The Funds may distribute securities instead of cash. Thus, upon an Investor's withdrawal of an interest in a Fund, it may receive securities that are illiquid or difficult to value.

**Risks of Restrictions on Advisory Client Transactions.** The Adviser and its affiliates currently occupy office space adjacent to, and share certain equipment (including a computer server) with, another investment manager (the "Other Manager"). While the Adviser believes that it has sufficient safeguards in place regarding any resulting conflicts of interest, the fact that the Adviser occupies space adjacent to, and shares certain equipment with, the Other Manager presents the risk that the Other Manager may be exposed to confidential or proprietary information regarding the Adviser or the Funds and may use such information or, alternatively, that the Adviser will be exposed to material non-public information of the Other Manager and be restricted from entering into certain transactions on behalf of the Advisory Clients. As a result, an Advisory Client may not be able to initiate a purchase or sale transaction that it otherwise might.

**Transactions in Advisory Client Accounts Trading Similarly.** For a variety of reasons, even if one or more of the Advisory Clients managed by the Adviser are intended to trade similarly, investments may not be allocated to a particular Advisory Client or may be allocated differently among Advisory Clients (e.g., not on a pro rata basis). Specifically, as a result of the nature of the strategy employed by certain Advisory Clients (e.g., significant investments in options and futures positions), there may be difficulty in exactly replicating the exposure of such instruments. Accordingly, investment opportunities may not be allocated pro rata, especially when one or more of such Advisory Clients experience inflows or outflows of capital. As a result of the differences described above, Advisory Clients within the same or a substantially similar strategy may not have the same economic exposures at all times and certain differences may arise in the performance of accounts that are intended to trade similarly.

**Class Action Settlements:** Advisory Clients may from time to time have the right to participate in class action settlements arising in connection with its securities holdings. The Adviser may determine, in its sole discretion, whether to assert an Advisory Client's potential right to participate in a class action securities settlement. The Adviser may consider the potential size of the settlement award, the administrative burden of pursuing a claim and any additional factors it deems appropriate in making such a determination. The Adviser has engaged a third-party service provider to monitor and pursue class action claims on its behalf. Any fees (which may be determined as a portion of amounts recovered through the settlement) for such services will be borne by the Advisory Client and not by the Adviser.

**Cyber Security Breaches Identity Theft, Privacy Breaches, and Other Threats.** The Adviser's and its Advisory Clients' information and technology systems may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, security threats (including ongoing cyber security threats to and attacks on the firm's information technology infrastructure), infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in the operations of the Adviser and/or its Advisory Clients and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). Such a failure could harm the Adviser's or an Advisory Client's reputation, subject any such entity and their respective affiliates to legal claims and otherwise affect their business and financial performance. The costs related to cyber or other security threats or disruptions may not be fully insured or indemnified by other means.

**Investors should review the offering documents and other governing documents specific to an Advisory Client to fully understand the risks and potential conflicts of interest. This Form ADV Part 2A is not intended to serve as an exhaustive list or a comprehensive description of all risks and conflicts that may arise in connection with the management and operation of the Advisory Clients.**



## **Disciplinary Information**

The Adviser and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to an Advisory Client's evaluation of the Adviser or its personnel.

## **Other Financial Industry Activities and Affiliations**

### **General Partner**

Emerging Sovereign Partners LLC ("ESP"), an affiliate of the Adviser and a registered commodity pool operator, serves as the general partner of the following Funds:

- ESG Cross Border Equity Fund LP
- ESG Credit Macro Event Fund LP
- ESG Domestic Opportunity Fund LP
- ESG Intrepid Fund LP
- ESG Nexus Fund LP

### **Commodities-Related Registrations**

ESP is registered as a commodity pool operator with respect to the above-listed entities. The Adviser is registered as a commodity pool operator of ESG Cross Border Equity Offshore Fund Ltd., ESG Cross Border Equity Master Fund Ltd., ESG Domestic Opportunity Offshore Fund Ltd., ESG Domestic Opportunity Master Fund Ltd., ESG Intrepid Offshore Fund Ltd., ESG Intrepid Master Fund Ltd., ESG Nexus Offshore Fund Ltd., ESG Nexus Master Fund Ltd. and N2 Master Fund Ltd., In connection with its registration as a commodity pool operator, certain of ESP and the Adviser's management persons are registered as associated persons and/or principals of ESP and the Adviser, respectively. The Adviser and ESP are members of the National Futures Association.

### **Investment Advisers**

Emerging Sovereign Partners UK LLP ("ESG UK") (through Mr. Tuncel, a London-based partner), an affiliate of the Adviser, provides certain non-discretionary investment advice and ancillary advisory services to the Adviser in respect of its Advisory Clients. All costs that ESG UK incurs in connection with this arrangement, including any compensation or benefits that ESG UK furnishes to Mr. Tuncel, are borne by ESG UK or the Adviser. In order to address the requirements of the U.K. Financial Conduct Authority (the "FCA"), ESG UK will operate as an appointed representative of CELF Advisors LLP ("CELF"), a wholly-owned affiliate of The Carlyle Group and an investment adviser formed as a limited liability partnership under the laws of England and Wales and authorized by the FCA. Mr. Tuncel and any other individuals related to the Adviser who operate from London are subject to the relevant compliance policies and procedures of each of the Adviser and of CELF.

## **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

The Adviser has adopted a Code of Conduct (the “Code”) that sets forth standards of ethical conduct for employees and is designed to address and avoid potential conflicts of interest as required under Rule 204A-1 of the Advisers Act. Among other things, the Code prescribes standards for dealing with Advisory Clients ethically, addresses conflicts of interest issues, and supplements personal trading and operating procedures. The Code provides guidance in specific areas, including but not limited to, confidentiality of the Adviser’s information, personal investments, and gifts and entertainment and personal political activities.

Specifically, the Code, together with the Adviser’s insider trading policies and procedures, sets forth certain reporting and pre-clearance requirements with respect to personal trading by access persons. Access persons must provide the Chief Compliance Officer with a list of their personal accounts and an initial holdings report within ten days of becoming an access person. In addition, access persons must provide annual holdings reports and quarterly transaction reports in accordance with Rule 204A-1 of the Advisers Act. Among other restrictions on personal trading, the Adviser generally does not permit access persons to execute transactions in the types of securities that the Advisory Clients typically invest in. The Adviser monitors all access persons’ personal securities transactions through the reporting and pre-clearance requirements described above.

The Adviser believes that these restrictions mitigate the most likely conflicts of interest that may arise from personal trading activity by generally prohibiting trading in securities that largely comprise the investible universe of its Advisory Clients. Clients and Investors or prospective Investors may request a copy of the Code by contacting the Adviser at the address or telephone number listed on the first page of this Form ADV Part 2A.

## **Brokerage Practices**

The Adviser typically manages Advisory Client accounts on a discretionary basis, subject to the restrictions (if any) that have been provided by such Advisory Clients. For accounts handled on a discretionary basis, the Adviser typically has the authority to determine the instruments to be bought and sold without obtaining Advisory Client consent to specific transactions. The Adviser is also authorized to determine the broker or dealer it will use for each securities transaction for its Advisory Clients, and places transactions with brokers consistent with its duty to seek to obtain best execution. The Adviser may pay for such research and related services with “soft dollars” as described further below.

In selecting brokers or dealers to execute transactions, the Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission, mark-up or other cost. It is not the Adviser's practice to negotiate “execution only” commission rates; thus, an Advisory Client of the Adviser may be deemed to be paying for research and related services and other services provided by the broker which are included in the commission, mark-up or other cost.

Except for services that would be an expense of such Advisory Client or as otherwise described below, the Adviser will limit the use of “soft dollars” to obtain research and brokerage services to services which constitute research and brokerage within the meaning of Section 28(e). Research services within Section 28(e) may include, but are not limited to, research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts; meetings with corporate executives; consultants’ advice on portfolio strategy; data services (including services providing market data, company financial data and economic data); advice from brokers on order execution; and certain proxy services. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between an adviser and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self-regulatory organization such as comparison services, electronic confirms or trade affirmations.

Research and brokerage services obtained by the use of commissions arising from a Advisory Client’s portfolio transactions may be used by the Adviser in its other investment activities and thus, an Advisory Client account may not necessarily, in any particular instance, be the direct or indirect beneficiary of the research or brokerage services provided.

In some instances, the Adviser may receive a product or service that may be used only partially for functions within Section 28(e). In such instances, the Adviser will make a good faith effort to determine the relative proportion of the product or service used to assist the Adviser in carrying out its investment decision-making responsibilities and the relative proportion used for administrative or other purposes outside Section 28(e). The proportion of the product or service attributable to assisting the Adviser in carrying out its investment decision-making responsibilities will be paid through brokerage commissions generated by Advisory Client transactions and the proportion attributable to administrative or other purposes outside Section 28(e) will be paid for by the Adviser from its own resources.

Information so received is in addition to and not in lieu of services required to be performed by the Adviser’s management and performance fees are not reduced as a consequence of the receipt of such supplemental research information. Because commission rates in the United States are negotiable, the Adviser’s selection of broker-dealers on the basis of considerations which are not limited to applicable commission rates may at times result in an Advisory Client being charged higher transaction costs than it would otherwise obtain. Nonetheless, the Adviser’s decision on which broker-dealer to utilize will be fully driven by a concerted effort to seek best execution. Research services received from broker-dealers are supplemental to the Adviser’s own research effort and, when utilized, are subject to internal analysis before being incorporated by the Adviser into its investment process.

As a practical matter, it would not be possible for the Adviser to generate all of the information presently provided by broker-dealers. The Adviser pays cash for certain research services

received from external sources. The Adviser also allocates brokerage for research services, which are available for cash. While the receipt of research services from brokerage firms has not reduced the Adviser's normal research activities, the expenses of the Adviser could be materially increased if it attempted to generate such additional information through its own staff. To the extent that broker-dealers provide research services of value, the Adviser is relieved of expenses, which it may otherwise bear. In addition, the Adviser has an incentive to select a broker-dealer based on its interest in receiving research or other products or services, rather than Advisory Client's interests in receiving lower transaction costs.

It is anticipated that each Advisory Client's debt transactions will occur primarily with the issuers, underwriters or major dealers acting as agents. Such transactions are normally on a net basis which does not involve payment of a separate brokerage commission. Rather, the cost of securities purchased from an underwriter usually includes a commission paid by the issuer to the underwriters; transactions with dealers normally reflect the spread between bid and ask prices. In addition, it is anticipated that each Advisory Client's equity transactions will occur primarily with registered broker-dealers.

In selecting brokers and negotiating commission rates, the Adviser will take into account, among other things, the financial stability, creditworthiness and reputation of brokerage firms, the brokerage, research and related execution services and other services provided by such brokers and referrals of investors (consistent with seeking best execution), although the Fund or account for which the transaction was effected, may not, in any particular instance, be the direct or indirect beneficiary of the research or related services provided.

The Adviser also directs portions of its brokerage business to brokers who refer prospective investors to the Adviser. Because such referrals, if any, are likely to benefit the Adviser but will provide an insignificant (if any) benefit to Advisory Clients, the Adviser will have a conflict of interest with the Advisory Clients when allocating brokerage business to a broker who has referred investors to the Adviser. The Adviser believes that the risk of this conflict is mitigated by its internal best execution procedures, including its quarterly best execution meetings. To prevent brokerage commissions from being used to pay investor referral fees, the Adviser will not allocate brokerage business to a referring broker unless the Adviser determines in good faith that the commissions payable to such broker are reasonable in relation to those available from non-referring brokers offering services of substantially equal value to the Adviser.

The Adviser participates in certain "capital introduction" programs organized or sponsored by certain prime or executing brokers to the Funds of such prime or executing brokers, which programs may include the prime or executing brokers or their affiliates introducing the Adviser to potential investors with which the prime or executing broker or its affiliate have a pre-existing relationship. Currently, neither the Adviser nor the Funds compensate prime or executing brokers or their affiliates for organizing such programs or making such introductions or for any investments ultimately made by such prospective investors (although either may do so in the future). While such programs and introductions provided by a prime or executing broker or its affiliates may provide an incentive or influence the Adviser in deciding whether to use such prime or executing broker in connection with brokerage, financing, trade execution and other activities of the Advisory Clients, the Adviser will not commit to allocate a particular amount of brokerage to a prime or executing broker in any such situation.

The Adviser aggregates purchase and sale orders of investments held by Advisory Client accounts managed by the Adviser with similar orders being made simultaneously for other accounts or entities managed by the Adviser if, in the Adviser's reasonable judgment, such aggregation is reasonably likely to result in an overall economic benefit to Advisory Clients based on an evaluation that they will be benefited by relatively better purchase or sale prices, lower commission expenses or beneficial timing of transactions, or a combination of these and other factors. In many instances, the purchase or sale of investments for Advisory Clients will be effected simultaneously with the purchase or sale of like investments for other accounts or entities. Such transactions may be made at slightly different prices, due to the volume of securities purchased or sold. In such event, the average price of all securities purchased or sold in such transactions may be determined, at the Adviser's sole discretion, and the Advisory Client account may be charged or credited, as the case may be, with the average transaction price.

When the Adviser determines that it would be appropriate for one or more accounts managed by the Adviser to participate in an investment opportunity, the Adviser seeks to execute orders for all of the participating accounts, on an equitable basis. Specifically, if the Adviser has determined to invest at the same time for more than one of the accounts, the Adviser may place combined orders for all such accounts simultaneously and if any order is not filled at the same price, it may average the prices paid. Similarly, if an order on behalf of more than one account cannot be fully executed under prevailing market conditions, the Adviser generally will allocate the securities traded among the different accounts pro rata based on each such Advisory Client's capital available for investment or, if for any reason this would not result in a position size that is economically reasonable, by any other basis which it considers equitable. In these circumstances, each account would pay, in connection with the acquisition of securities by more than one account, the average price per unit acquired, which may be higher than if it had acted alone, and it may otherwise not be able to execute an investment decision as effectively as it could have if it had acted alone. There may be corresponding potential disadvantages when more than one Advisory Client account simultaneously seeks to dispose of commonly held securities and other investment positions. In addition, situations may occur where an Advisory Client could be disadvantaged because of the activities conducted by the Adviser for other accounts. Such situations may be based on, among other things: legal restrictions on the combined size of positions which may be taken for all accounts managed by the Adviser; the difficulty of liquidating an investment for more than one account where the market cannot absorb the sale of the combined positions; or the determination that a particular investment is warranted only if hedged with an option and there is a limited availability of such options. Instances also may arise where the Adviser determines an investment opportunity to be suitable for more than one account but the market is too illiquid to enable each to participate to the extent advisable. In the above situations, or in other situations in which conflicts arise, the Adviser will endeavor to allocate investment opportunities fairly; nevertheless, from time to time as any given conflict situation arises, such conflict may be resolved in a manner detrimental to a particular Advisory Client.

Sensitive allocation issues arise when the Adviser is given the opportunity to participate in an offering that is expected to be over-subscribed. Since hot issue premiums provide the potential of an immediate profit and since the Adviser may typically receive only a small portion of the allotments sought, the Adviser will exercise particular care in the allocation of these securities. For these reasons, final allocations may not be feasible until after the Adviser determines the amount of the issue to be allocated to it and the price. Allocation of IPOs will begin with a

determination of which accounts and the underlying investors are permitted to participate based upon regulatory constraints and account guidelines and restrictions. Thereafter, the principles of the general allocation policy will apply to all eligible accounts.

If the Adviser makes an error while placing a trade for an Advisory Client, the Adviser will use its best efforts to break or otherwise correct the trade, and will mitigate losses as fully as possible. As a general matter, the Adviser bears both the cost of correcting any error, and the cost of any uncorrectable error, if the error is the result of the Adviser's gross negligence, willful misconduct or as otherwise provided under applicable law. In determining whether its personnel have violated the standard of care such that the Adviser is responsible for a loss resulting from a trade error, the Adviser will have a conflict of interest between its economic interest and the interests of the Adviser's Advisory Clients. Broker-dealers may not assume responsibility for trade error losses caused by the Adviser.

As is consistent with its duty to seek to obtain best execution, occasionally the Adviser may cross trades for Advisory Client accounts. A cross trade occurs when the Adviser purchases and sells a particular security between two or more accounts under the Adviser's management by instructing brokers to cross the trade. The Adviser generally utilizes "cross" trades to address account funding issues and when it specifically deems the practice to be advantageous for each participant. In no instance does the Adviser receive additional compensation when crossing trades for Advisory Client accounts. The Adviser will seek to ensure that the terms of the transaction, including the consideration to be paid or received, are fair and reasonable, and that the transaction is done for the sole benefit of the Advisory Clients. In addition, cross trades may be effected between Advisory Clients subject to the following guidelines: (i) such transactions shall be effected for cash consideration at the current market price of the particular securities, and (ii) no extraordinary brokerage commissions or fees (i.e., except for customary transfer fees or commissions) or other remuneration shall be paid in connection with any such transaction.

The Adviser and its members, principals, employees or affiliates may beneficially own, or be deemed to beneficially own, a significant interest in a Fund or an account managed by the Adviser or its affiliates. Accounts managed by the Adviser or its affiliates may from time to time engage in cross-trades where the same security is simultaneously bought and sold or covered and shorted by Advisory Client accounts managed by the Adviser (or its affiliates) or other inter-fund transactions (including rebalancing fund assets as a result of subscriptions/contributions or redemptions/withdrawals from funds or accounts). Cross trades will be effected either by trading the security in the open market or by a direct transfer between the accounts of the Adviser's Advisory Clients. In either case, cross trades will be effected at market value. Because such transactions could be viewed as principal transactions between the Adviser (and/or its members, principals, employees or affiliates) and the relevant account, to the extent required by law, the Adviser will adopt certain additional procedures to be followed to address any conflict of interest with respect to these transactions. In connection with an investment in a Fund, such procedures would provide for an independent advisory board to review information with respect to each transaction and, based upon such information, will approve or deny the transaction on behalf of the applicable Advisory Client accounts prior to its execution.

## **Review of Accounts**

Portfolio holdings of Advisory Client accounts are generally monitored on an ongoing basis by J. Kevin Kenny Jr., Mete Tuncel, and Jason Kirschner in light of the Advisory Client's investment objective, trading activity, significant corporate developments and other activities which may dictate a change in portfolio positions.

Each Fund will receive at least quarterly reports listing the market value of their investment. Financial statements will be sent annually to the Funds' Investors.

## **Client Referrals and Other Compensation**

From time to time, the Adviser may enter into placement agent agreement with other affiliated and unaffiliated placement agents with respect to the Funds.

For instance, the Adviser has entered into a placement agreement with Stifel, Nicolaus & Company, Incorporated ("Stifel") for CBE. CBE will pay Stifel, with respect to each investor introduced by Stifel that invests in CBE, a portion of the Fixed Fee received by the Adviser attributable to the respective investors in an amount equal to 0.75% of the net asset value of the investment in CBE, as applicable, by each such investor.

## **Custody**

All Advisory Client assets are held in custody by unaffiliated broker-dealers or banks; however the Adviser may be deemed to have custody of Advisory Client accounts since ESP, its affiliate, serves as the General Partner of the Funds. Investors in the Funds will not receive statements from the custodian. Instead the Funds are subject to an annual audit and the audited financial statements are distributed to each limited partner. The audited financial statements will be prepared in accordance with generally accepted accounting principles and distributed within 120 days of the Funds' fiscal year end.

## **Investment Discretion**

The Adviser typically manages Advisory Client accounts on a discretionary basis, subject to the restrictions (if any) that have been provided by Advisory Clients. For accounts handled on a discretionary basis, the Adviser typically has the authority to determine the instruments to be bought and sold without obtaining client consent to specific transactions. The Adviser is also authorized to determine the broker or dealer to be used for each securities transaction for its clients.

## **Voting Client Securities**

The Adviser has adopted Proxy Voting Policies and Procedures (the "Proxy Voting Procedures") that are designed to ensure that in cases where the Adviser votes proxies with respect to Advisory Client securities, such proxies are voted in the best interests of its Advisory Clients. The Proxy Voting Procedures also require that the Adviser identify and address conflicts of interest between

the Adviser and its Advisory Clients. If a material conflict of interest exists, the Adviser will determine whether voting in accordance with the guidelines set forth in the Proxy Voting Procedures is in the best interests of the Advisory Client or take some other appropriate action. In voting proxies, the Adviser generally votes in favor of routine corporate housekeeping proposals, including election of directors (where no corporate governance issues are implicated), selection of auditors, and increases in or reclassification of common stock. Generally, the Adviser will vote against proposals that make it more difficult to replace members of a board of directors, including proposals to stagger the board, cause management to be overrepresented on the board, introduce cumulative voting, introduce unequal voting rights, and create supermajority voting. For all other proposals, the Adviser will determine whether a proposal is in the best interests of its Advisory Clients and may take into account the following factors, among others: (i) whether the proposal was recommended by management and Adviser's opinion of management; (ii) whether the proposal acts to entrench existing management; and (iii) whether the proposal fairly compensates management for past and future performance.

Clients may obtain a copy of the Adviser's Proxy Voting Procedures by contacting Kamand Daniels by email at [kd@emsov.com](mailto:kd@emsov.com) or by telephone at 212-813-4600.

## **Financial Information**

The Adviser has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.