

# COLHB2 ENERGY INVESTMENT ADVISOR, LLC

Form ADV, Part 2A

## FIRM BROCHURE

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This brochure ("Brochure") provides information about the qualifications and business practices of ColHB2 Energy Investment Advisor, LLC, a Delaware limited liability company ("ColHB2 Energy"), and any relying advisers who advise private funds and/or separately managed account clients that are qualified clients and collectively conduct a single advisory business under the umbrella registration of ColHB2 Energy (collectively, the "ColHB2 Advisors"). If you have any questions about the contents of this brochure, please contact our Chief Compliance Officer (the "CCO").

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.

Each ColHB2 Advisor is an investment adviser registered with the SEC. Registration with the SEC does not imply a certain level of skill or training. Additional information about the ColHB2 Advisors is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2: Material Changes**

On May 31, 2019, ColHB2 Energy filed its initial application to register as an investment adviser with the SEC. Accordingly, pursuant to disclosure rules under the Advisers Act, this is the first Brochure compiled by ColHB2 Energy to provide new and prospective investors with a clearly written, meaningful, current disclosure of its business practices, conflicts of interest and background of its advisory personnel. We encourage all recipients of this Brochure to read it carefully in its entirety.

In the future, this Item will identify and discuss any material changes since the last update to assist investors and make them aware of certain information that has changed since the most recently filed Brochure and that may be important to them.

## IMPORTANT NOTE ABOUT THIS BROCHURE

**This Brochure is not:**

- an offer or agreement to provide advisory services to any person
- an offer to sell interests (or a solicitation of an offer to purchase interests) in any investment vehicle or co-investment vehicle advised or sponsored by the ColHB2 Advisors or any of their affiliates (each a “ColHB2 Energy Fund”, “Fund”, or “Client”)
- a complete discussion of the features, risks or conflicts associated with any advisory relationship or ColHB2 Energy Fund

As required by the US Investment Advisers Act of 1940, as amended (“Advisers Act”), ColHB2 Energy provides this Brochure to current and prospective clients and may also, in its discretion, provide this Brochure to current or prospective investors in a ColHB2 Energy Fund, together with the Fund’s offering documents, SEC filings (as applicable), organizational documents, management contracts or other related documents (the “Governing Documents”), prior to, or in connection with, such persons’ investment in the ColHB2 Energy Fund. Additionally, this Brochure is available through the SEC’s Investment Adviser Public Disclosure website.

Although this publicly available Brochure describes investment advisory services and products of the ColHB2 Advisors, persons who receive this Brochure (whether or not from ColHB2 Energy) should be aware that it is designed solely to provide information about the ColHB2 Advisors as necessary to respond to certain disclosure obligations under the Advisers Act. As such, the information in this Brochure may differ from information provided in relevant Governing Documents. More complete information about each ColHB2 Energy Fund is included in relevant Governing Documents, certain of which may be provided to current and eligible prospective investors only by the ColHB2 Energy Funds or by another authorized party.

In no event should this Brochure be relied upon in determining whether to invest in a ColHB2 Energy Fund or to engage ColHB2 Energy or any of the ColHB2 Advisors as an investment adviser. To the extent that there is any conflict between discussions herein and similar or related discussions in any Governing Documents, the relevant Governing Documents shall govern and control.

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## **Item 4: Advisory Business**

### **Colony HB2 Energy**

Colony HB2 Energy, LLC (“Colony HB2”), a Delaware limited liability company, is a joint venture between affiliates of Colony Capital, Inc. (NYSE: CLNY) (“Colony Capital”) and Haloroc Partners, LLC (“Haloroc”). Colony HB2 is an oil and gas operating and investment management platform. Private investment funds and co-investment vehicles managed by ColHB2 Energy (as defined below) will invest in the energy exploration and production (“upstream”) oil and gas industry (collectively, the “Oil and Gas Industry”). The principals of Colony HB2 collectively have over 100 years of experience in developing, investing in, and operating businesses and assets in the Oil and Gas Industry. Craig Perry is the Executive Chairman of Colony HB2, Michael Bertuccio is the Chief Executive Officer of Colony HB2, and Michael McCoy is the Chief Operating Officer of Colony HB2 (collectively, the “Management”).

### **Colony Capital**

Colony Capital is a global investment management firm publicly-traded on the New York Stock Exchange. Thomas J. Barrack, Jr. is the Executive Chairman and Chief Executive Officer of Colony Capital and Darren J. Tangen is the President of Colony Capital.

### **Haloroc**

Haloroc is an affiliate of HB2, Inc., a Tennessee corporation, with offices located in Houston, Texas and Nashville, Tennessee. HB2, Inc. is an Oil and Gas Industry developer and operator formed in 2018.

### **ColHB2 Energy**

ColHB2 Energy is a recently formed company and a subsidiary of Colony HB2. The advisory business of ColHB2 Energy primarily consists of advising the ColHB2 Energy Funds. The investment strategies of the ColHB2 Energy Funds are generally focused on making investments in the Oil and Gas Industry.

Each ColHB2 Advisor is a separate and distinct company that may have differing investment capabilities and functions, but the ColHB2 Advisors work collaboratively to provide advice and services to Clients. As of May 31, 2019, the ColHB2 Advisors managed \$0 in client assets on a discretionary basis and \$0 in client assets on a non-discretionary basis. However, ColHB2 Energy has registered with the SEC in reliance on Rule 203A-2(c) because it expects to be eligible for SEC registration within 120 days of the filing date due to its investment management services for the ColHB2 Energy Funds. Assets under management are calculated and presented in this Brochure according to the requirements of the Advisers Act and may differ from the calculation and presentation of assets for purposes of other disclosures made by Colony Capital, Haloroc, Colony HB2 or the ColHB2 Energy Funds.

### **ColHB2 Advisors**

The ColHB2 Advisors provide investment management services to the ColHB2 Energy Funds, which will consist of private investment funds and co-investment vehicles, whose investment strategies are focused on making investments in the Oil and Gas Industry, and other companies, funds and accounts that may be sponsored or co-sponsored by Colony Capital, Haloroc, Colony HB2 or otherwise advised by ColHB2 Energy in the future, both in the United States and internationally.

### **Other Affiliates**

Certain other affiliates of Colony Capital provide investment advisory and related services under separate registrations with the SEC and are not covered by this Brochure. These other registered affiliates do not have

common policies and procedures but may share certain management teams or personnel with ColHB2 Energy and Colony Capital but are treated as separate and distinct companies and SEC registrants. These separate registered investment adviser affiliates may offer a variety of investment strategies and services to a number of different clients, including, without limitation, (i) private investment funds and co-investment vehicles, (ii) public REITs that are either traded on a national securities exchange or non-listed and sold through independent broker dealer channels, (iii) closed-end management investment companies registered under the Investment Company Act of 1940, as amended (“Investment Company Act”), (iv) a public statutory trust that intends to be treated as a liquidating trust for purposes of U.S. treasury regulations and any analogous provision of state or local law and/or (v) provide active management services to special purpose vehicles (“SPVs”) and Direct Accounts. The registered investment adviser affiliates not covered under this Brochure include, but are not limited to: Digital Colony Management, LLC (Delaware), Colony Capital Investment Advisors, LLC (Delaware), Col Invest Italy S.R.L. (Italy), Colony Capital Advisors, LLC (Delaware), Colony Realty Partners, LLC (Delaware), CDCF IV Investment Advisor, LLC (Delaware), Colony Industrial Investment Advisor, LLC (Delaware), CLNC Manager, LLC (Delaware), CNI NSI Advisors, LLC (Delaware), CNI NSHC Advisors, LLC (Delaware), CNI NRE Advisors, LLC (Delaware), CNI FCVP Advisors, LLC (Delaware), Colony Capital – N Luxembourg S.à r.l. (Luxembourg), Colony Capital Luxembourg S.à r.l. (Luxembourg), Colony Capital UK, Ltd. (United Kingdom), Colony Capital SAS (France), CNI One Cal Plaza Investment Advisor, LLC (Delaware) CNI Century Plaza Advisor, LLC (Delaware), CNI RECF Advisors, LLC (Delaware), CDCF V Investment Advisor, LLC (Delaware), CIB Bulk 2018 Investment Advisor, LLC (Delaware) and Colony Latam Holdings, LLC. Further information about the advisory businesses of these affiliates can be found in the public disclosures on Form ADV for those firms.

### **About the ColHB2 Energy Funds**

The business line of ColHB2 Energy will consist of advising the ColHB2 Energy Funds, whose investment strategies are focused on making investments in the Oil and Gas Industry.

As a general matter, each ColHB2 Energy Fund is managed in accordance with its investment objectives, strategies and guidelines and is not tailored to the individual needs of any particular investor and an investment in a ColHB2 Energy Fund does not, in and of itself, create an advisory relationship between the investor and ColHB2 Energy. Therefore, investors must consider whether the ColHB2 Energy Fund meets their investment objectives and risk tolerance prior to investing in a ColHB2 Energy Fund.

### **Services to the ColHB2 Energy Funds**

The ColHB2 Advisors generally advise and manage the day-to-day investment affairs of the ColHB2 Energy Funds, and may act in one or more capacities, including as a general partner. Subject to the terms of the ColHB2 Energy Fund’s Governing Documents, the services provided to the ColHB2 Energy Funds include investment management and advisory services concerning investments in the Oil and Gas Industry.

In connection with the consummation of certain investments on behalf of Clients, the ColHB2 Advisors may employ hedging techniques designed to protect the Client against adverse movements in commodity prices, currency, or interest rates.

The ColHB2 Energy Funds may invest Clients’ funds in liquid, short-term investments, such as bank and certificates of deposit or deposit such funds in a money market fund. The ColHB2 Advisors estimate that the portion of its activities related to such advisory services will not be significant.

Except as specifically disclosed in the relevant documents (e.g. limited partnership agreements, investment advisory agreements), ColHB2 Energy manages each ColHB2 Energy Fund on a discretionary basis (subject to any limitations set forth by the relevant Governing Documents, investment board, general partner, or similar governing body, as applicable).

### **Other Services to the ColHB2 Energy Funds**

Certain ColHB2 Energy Funds may retain ColHB2 Energy or its affiliates to provide and/or reimburse ColHB2 Energy or an affiliate for provision of additional services, in which case such services will be provided on terms comparable to those generally available in arms-length transactions.

ColHB2 Energy does not currently engage in wrap fee programs.

### **Item 5: Fees and Compensation**

Fees are separately determined for each Client. As a general matter, ColHB2 Energy and its affiliates receive management and incentive fees pursuant to advisory contracts and other agreements with Clients and certain other fees as described in more detail below. Client fee structures can vary significantly between the ColHB2 Energy Funds.

### **Management and Incentive Fees**

For its investment advisory services, the ColHB2 Advisors may be compensated by one or more of the following investment management fees:

- an investment management fee that is equal to a percentage of the Client's committed capital or Net Adjusted Commitments. "Net Adjusted Commitments" for a partner equals a partner's drawn capital commitments less the portion of such drawn capital commitments utilized to acquire investments which have been disposed; and/or
- performance-based fees (either as an incentive fee or carried interest) subject to the Client account achieving certain specified returns.

To the extent fees are based on capital gains or capital appreciation, the ColHB2 Advisors comply with Rule 205-3 under the Advisers Act, which permits the payment of performance fees by clients that meet certain requirements. See Item 6 for a discussion of certain conflicts related to performance-based fees.

The types and amounts of, and the related limitations and restrictions on, fees charged by the ColHB2 Advisors are not uniform among Clients and may be affected by the extent of services to be provided or the size of the account. Therefore, the ColHB2 Advisors do not maintain a fee schedule. The fees and expenses related to Clients offered pursuant to private securities offerings are fully specified in the Governing Documents for each Client. These materials are available from the ColHB2 Advisors upon request.

While fees related to Clients are generally not negotiable, such fees may include discounts based on the amount invested or timing of commitment. In addition, prior to accepting subscriptions from certain types of investors (e.g., high net worth persons, feeder funds and retail investors), ColHB2 Energy, or its affiliate, as general partner, may require such investors to agree to additional fees or priority profit allocations to the general partner or its affiliates (including the same fees in higher amounts than described in the Governing Documents for each client).

The timing of fee payments is set forth in the relevant Client offering documents. Asset-based fees generally are paid quarterly, and are calculated on the value of committed capital or Net Adjusted Commitments. The carried interest is distributed to the ColHB2 Advisors and/or its affiliates after investments have been sold and proceeds are received. Subject to relevant Client offering documents, the ColHB2 Energy Funds may utilize a subscription line of credit which is used primarily for interim financing in respect of investments and partnership expenses and payment of management fees incurred in advance of capital contributions.

In many cases, the ColHB2 Advisors' fees are based on the value and performance of the assets held in the Client account. The ColHB2 Advisors may be charged with the responsibility to, or have a role in, determining such values. To the extent the ColHB2 Advisors' fees are based on the value or performance of Client accounts, the ColHB2 Advisors may benefit by receiving a fee based on the increased value of assets in an account. When valuing an asset, ColHB2 Energy attempts, in good faith, to determine the fair value of the asset in question in a manner consistent with the ColHB2 Advisors' then current valuation policies (unless otherwise specified by the Client). The ColHB2 Advisors may also rely on valuations provided by third-party appraisals or on market quotations (when market quotations are available and deemed reliable) for the valuation of certain investments.

The limited partnership agreements, limited liability company operating agreements or applicable operating agreements of the Clients generally provide that payment of management fees are paid solely from (i) capital contributions from investors in the Client, (ii) distributable proceeds from investments, or (iii) borrowings under credit facilities.

Any fees or other revenues of the Clients, including all acquisition, financing, break-up and other fees payable to the Clients, the general partners, or any affiliates of the general partners will be for the benefit of the Clients and may be applied by the general partners to pay or reserve for the payment of expenses of the ColHB2 Energy Funds or to repay any credit facility drawdowns used to pay the same, with any balance distributed in accordance with the distribution waterfall or offset against management fees.

As described further in the Fund Governing Documents, fund expenses encompass a broad range of expenses and include all expenses of operating the Fund and its related entities, including, for example, organizational expenses of the ColHB2 Energy Funds and any entities used directly or indirectly to acquire, hold, or dispose of any one or more investment(s) or otherwise facilitating the Fund's investment activities. Clients bear all costs and expenses in maintaining their operations and investments, including: (i) fees, costs and expenses of any administrators, custodians, depositaries, attorneys, accountants, tax advisers, consultants, brokers, agents, valuation experts, senior advisors, operating partners and other advisers and professionals, (ii) all out-of-pocket fees, costs and expenses related to the sourcing, bidding, evaluating, purchasing, trading, settling, maintaining custody, holding, monitoring and sale of investments, (including, without limitation, any brokerage, custody, or hedging costs and travel and related expenses (which may include travel for chartered or private air travel if it does not exceed the cost of first-class commercial airfare) in connection with a Client's investment activities and any costs and expenses arising from any foreign exchange, commodity, or interest rate transactions), (iii) any out-of-pocket expenses incurred in connection with a Client's legal, tax and regulatory compliance with U.S. federal, state, local, non-U.S. or other law and regulation (including, without limitation, regulatory filings of ColHB2 Energy and its affiliates relating to a Client and its activities), including reporting on and compliance with Form PF, FATCA and any comparable legislation or regulations published by any other relevant jurisdiction, (iv) expenses for transactions not completed, including any travel, entertainment and accommodation expenses, all fees (including commitment fees), costs and expenses of lenders, investment banks and other financing sources in connection with arranging financing for transactions which are not consummated, reverse break-up, termination and other similar fees payable by a Client, any alternative investment vehicles or any acquisition vehicle thereof for transactions which are not consummated, any deposits or down payments which are forfeited in connection with unconsummated transactions to the extent not reimbursed by an entity in which a Client has invested or proposes to invest or other third parties, (v) brokerage commissions, prime brokerage fees, custodial expenses, agent bank and other bank service fees, travel and related expenses and other investment costs, fees and expenses actually incurred in connection with actual investments, (vi) the costs and expenses of any lenders, investment banks and other financing sources (including principal and interest and fees and other expenses arising out of borrowings made by a Client), (vii) the costs of any insurance and indemnification or extraordinary expense or liability relating to the affairs of a Client, (viii) the out-of-pocket expenses incurred in connection with complying with provisions in side letter agreements, including "most favored nations" provisions, (ix) expenses of winding up and liquidating a Client, (x) subject to certain exceptions, any taxes, fees or other governmental charges levied against or payable by a Client and all expenses incurred in connection with any tax audit, investigation, settlement or review of a Client, and (xi) the



out-of-pocket expenses of a Client's investor advisory committee and expenses associated with any meeting or conference with one or more limited partners.

Clients may pay up to six months of fees in advance.

Neither the ColHB2 Advisors nor any of its supervised persons accepts compensation for the sale of securities or other investment products.

### **Other Fees**

#### **Deal Costs**

The ColHB2 Energy Funds bear third-party acquisition costs for proposed investments and for co-investment vehicles that are not completed ("Broken Deal Costs"). ColHB2 Energy will allocate Broken Deal Costs to the ColHB2 Energy Fund that would have acquired or originated the investment according to ColHB2 Energy's allocation policy.

Please see Item 12 for a discussion of ColHB2 Energy's allocation policy and a discussion of factors that may affect the costs of executing portfolio transactions.

### **Timing and Deduction of Fees**

All ColHB2 Energy Fund fees are generally calculated and payable quarterly in arrears. ColHB2 Energy Fund fees are deducted from ColHB2 Energy Fund assets. More complete information about fees is contained in each ColHB2 Energy Fund's Governing Documents.

## **Item 6: Performance-Based Fees and Side-By-Side Management**

Performance-based compensation arrangements, if any, are negotiated with each Client on an individualized basis and will in all cases be in compliance with Section 205(3) of, or Rule 205-3 under, the Advisers Act. The payment of performance-based compensation is subject to a specified "hurdle" rate.

Certain affiliates of ColHB2 Energy that serves as general partner to a Client may be entitled to receive from the relevant Client a carried interest distribution representing a percentage of the profits of such Client with respect to each portfolio investment. Fee arrangements with certain Clients may include clawbacks on carried interest.

The existence of the carried interest with respect to Clients may create an incentive for ColHB2 Energy to make more speculative investments on behalf of the Clients than it might otherwise make in the absence of such performance-based compensation. The carried interest may also incentivize ColHB2 Energy to dedicate increased resources and allocate more profitable investment opportunities to Clients who are charged a carried interest, as ColHB2 Energy and its affiliates have the opportunity to receive carried interest distributions based on the success of portfolio investments. Further, ColHB2 Energy is also incentivized to allocate investment opportunities to Clients who either pay higher carried interest percentages to their general partners or to Clients whose current performance does not require them to reimburse limited partners for losses attributable to prior unprofitable investments before distributing carried interest to their general partners.

The carried interest creates a potential conflict of interest for ColHB2 Energy and/or its affiliates in valuing investments. For example, if carried interest distributions in ColHB2 Energy Funds are calculated in a "deal-by-deal" waterfall, ColHB2 Energy and/or its affiliates will not receive a carried interest until the partners of the applicable fund receive distributions equal to their share of writedowns not taken into account in prior distributions. This creates an incentive for ColHB2 Energy and/or its affiliates to avoid writing down the value

of assets that are not readily marketable or difficult to value, because ColHB2 Energy and/or its affiliate, as applicable, will be in a position to receive a higher carried interest.

The terms of the carried interest could also give ColHB2 Energy an incentive to make decisions regarding the timing and structure of realization transactions that may not be in the best interests of investors. For example, ColHB2 Energy and/or its affiliates would be in a position to receive carried interest distributions earlier if profitable investments are liquidated prior to investments that are not profitable because, at the time proceeds from such profitable investments are liquidated, ColHB2 Energy and/or its affiliates would not be required to first distribute capital to limited partners to make up for prior losses associated with unprofitable investments. The above conflicts are mitigated by the fact that Clients are entitled to clawback any distributions paid to the general partner to ensure that distributions to partners over the term of the Client are consistent with the distribution waterfall. However, the return of such distributions to the limited partners may be delayed until the end of the fund's term.

With certain limited exceptions, valuations of current income and disposition proceeds with respect to investments will be determined by the general partner of the Client (which is generally a special purpose vehicle created and controlled by ColHB2 Energy and/or its affiliates) and will be final and conclusive to all partners. If distributions are made in assets other than cash, the amount of any such distribution will be accounted for at the fair value of such assets, with certain limited exceptions, as determined by the general partner in accordance with procedures set forth in the Client's limited partnership agreement.

ColHB2 Energy seeks to treat all ColHB2 Energy Funds in a fair and equitable manner over time and will act in a manner that it believes to be in the best interests of the ColHB2 Energy Funds. To that end, ColHB2 Energy has established a variety of policies and other controls regarding, among other things, the allocation of investment opportunities, including those seeking to manage the conflicts of interest identified above. Please see “**Item 12: Brokerage Practices**” below for more information.

## **Item 7: Types of Clients**

ColHB2 Energy generally provides investment advice to pooled investment vehicles and co-investment vehicles, generally in the form of corporations, limited partnerships or limited liability companies and therefore does not have requirements for opening or maintaining accounts. However, there may be conditions for investing in the ColHB2 Energy Funds, including minimum investment amounts, which are stated in their respective Governing Documents for each ColHB2 Energy Fund. For the ColHB2 Energy Funds with minimum investment amounts, the Governing Documents generally note that the general partner or company, as applicable, has the discretion to reduce or waive the minimum investment amount.

The ColHB2 Energy Funds are not “investment companies” subject to registration under the Investment Company Act.

## **Private Funds**

The ColHB2 Energy Funds are generally private investment funds that qualify for an exclusion from the definition of an “investment company” under Section 3(c)(1) or 3(c)(7) of the Investment Company Act. The ColHB2 Energy Funds make investments in the Oil and Gas Industry. Except as mentioned in Item 4 above, ColHB2 Energy has full discretionary authority with respect to investment decisions made on behalf of each ColHB2 Energy Fund and it makes and manages each investment in accordance with the purposes, terms, restrictions and limitations set forth in the relevant Governing Documents of each ColHB2 Energy Fund. Each ColHB2 Energy Fund that makes multiple investments may be subject to certain diversification and geographic limitations, as well as restrictions on incurring indebtedness, making passive investments in pooled investment vehicles, and entering into certain affiliated transactions.

Each U.S. investor participating in the ColHB2 Energy Funds is required to meet certain suitability and net worth qualification, such as (i) “accredited investor” within the meaning of Rule 501(a) of Regulation D promulgated under Section 4(2) of the Securities Act of 1933, as amended, (ii) “qualified purchaser” within the meaning of Section 2(a)(51) of the Investment Company Act, (iii) “qualified client” pursuant to Rule 205-3 of the Advisers Act, and/or (iv) “knowledgeable employee” within the meaning of Rule 3c-5 of the Investment Company Act.

## **Item 8: Methods of Analysis, Investment Strategies and Risk of Loss**

### **Investment Objective and Focus**

Colony HB2 is a fully-integrated, oil and gas operating and investment management platform providing differentiated investment products in the Oil and Gas Industry. Colony HB2 Energy Funds may also invest directly or indirectly in debt or preferred equity instruments secured by assets or businesses related to the Oil and Gas Industry.

The principals of Colony HB2 have collectively been engaged in the development of, investment in and operation of Oil and Gas Industry businesses for over 100 years, most recently through companies owned by HB2, Inc., an affiliate of Haloroc, which owns and operates approximately 6,500 acres in the Eagle Ford formation outside of Giddings, TX. ColHB2 Energy plans to focus its efforts on the operation of and investment in Oil and Gas Industry assets and diversify across the Oil and Gas Industry sub-sectors.

By focusing on the Oil and Gas Industry, ColHB2 Energy seeks to raise capital and create attractive investment structures to capitalize on the opportunity to develop, operate, and invest in upstream projects by leveraging its relationships with other oil and gas operators, including by providing drillco financing to other operators in exchange for non-operating working interests in oil and gas properties.

### **Material Risks**

#### **Risk of Loss**

An investment in a ColHB2 Energy Fund involves risk. There is no certainty of return with respect to any such investment. There is no guarantee that a ColHB2 Energy Fund will achieve its goals, objectives or targeted returns (as applicable). Investors may lose all or a portion of the value of their investment and, as such, should not invest unless they can readily bear the consequences of such loss.

Below is a summary of certain risks associated with an investment in a ColHB2 Energy Fund. Investors should refer to the risk factors in each ColHB2 Energy Fund’s Governing Documents, or other documents (as applicable) provided to, or made available to, prospective investors for a more complete description of the risks associated with the investment in such ColHB2 Energy Fund. The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in a ColHB2 Energy Fund. These risk factors include certain risks ColHB2 Energy believes to be material, significant or unusual and relate to particularly significant investment strategies or methods of analysis employed by Colony HB2.

#### **General Risks**

*General Economic and Market Conditions.* The success of the ColHB2 Energy Funds’ activities will be affected by general economic and market conditions, as well as a number of other economic factors that are outside of ColHB2 Energy’s control. These factors include, but are not limited to, changes in applicable laws and regulations (including regulations specific to the ownership or operation of oil and gas interests and laws and rates relating to taxation of the ColHB2 Energy Funds’ investments), fluctuations in currency exchange rates and interest rates, availability of credit, credit defaults, changes in the relative prices of commodities or securities, inflation rates, economic uncertainty, trade

barriers, currency exchange controls, general economic and market conditions and activity, and national and international political, environmental and socioeconomic circumstances. There is no assurance that any key trends or economic and market conditions for oil investing will improve or not deteriorate. General fluctuations in the market prices of commodities may affect the ColHB2 Energy Funds' investment opportunities and the value of the Funds' investments. Colony HB2's financial condition may be adversely affected by a significant general economic downturn and it may be subject to legal, regulatory, reputational, and other unforeseen risks that could have a material adverse effect on Colony HB2's business and operations and thereby could impact the Funds. Any recession, slowdown, and/or a sustained downturn in the U.S. or global economy (or any particular segment thereof), a weakening of credit markets (including a perceived increase in counterparty default risk), or an adverse development in prevailing market trends could adversely affect the ColHB2 Energy Funds' profitability and/or impair the Funds' ability to effectively consummate and exit investments on favorable terms and may have an adverse impact on the availability of credit to businesses generally, which in turn may have an adverse impact on the business and operations of the ColHB2 Energy Funds. Colony HB2 could also be affected by difficult conditions in the capital markets and any overall weakening of the financial services industry. It is possible that a weakening of credit markets could adversely affect ColHB2 Energy's funding obligations to the ColHB2 Energy Funds and the Funds could suffer other adverse consequences, any of which could adversely affect the business of the Funds, restrict the Funds' investment activities, and impede the Funds' ability to effectively achieve its investment objective. In addition, economic problems in a single country are increasingly affecting other markets and economies. A continuation of this trend could adversely affect global economic conditions and world markets and, in turn, could adversely affect the ColHB2 Energy Funds' performance.

*Lack of Operating History.* Colony HB2, the ColHB2 Energy Funds, the ColHB2 Advisors, and the general partner(s) are newly formed entities with limited or no operating history upon which prospective investors may evaluate their performance. There can be no assurance that the ColHB2 Energy Funds will be able to implement their investment strategy and investment approach or achieve their investment objective or that Investors will receive a return of their capital. The past performance of Haloroc and Colony Capital may not be indicative of the future performance of the ColHB2 Energy Funds. Accordingly, investors should draw no conclusions from the performance of any Colony HB2, Haloroc or Colony Capital entities and should not expect to achieve similar results.

*Risk of Joint Venture Failure.* Colony HB2 was formed in 2018 as a joint venture between Haloroc and affiliates of Colony Capital. In the event of a disagreement between Haloroc and Colony Capital as to the resolution of a particular issue to come before Colony HB2, or as to the management or conduct of the business of Colony HB2 in general, Haloroc and Colony Capital may not be able to resolve such disagreement. Any such disagreement could adversely affect the Funds' ability to achieve its investment objectives, as well as the ability of a Fund to conduct its operations.

*Leverage.* Use of borrowed funds to leverage acquisitions involves a high degree of financial risk and can exaggerate the effect of any increase or decrease in value of an investment and will increase the exposure of the investments to adverse economic factors, such as fluctuations in interest rates, downturns in the local economies in which the investments are located or deterioration in the condition of the investments. Accordingly, the use of leverage may cause a ColHB2 Energy Fund's value to be more volatile than it would be in the absence of such leverage. In addition, to the extent a strategy employed on behalf of a ColHB2 Energy Fund is dependent on leverage, the availability (or lack thereof) and cost of financing may significantly affect the ability of the ColHB2 Energy Fund to execute its investment strategy.

*Litigation.* In the ordinary course of business, a ColHB2 Energy Fund may be subject to litigation from time to time. The outcome of such proceedings may adversely affect the value of an investment and may continue without resolution for long periods of time.

In connection with such actions, the applicable ColHB2 Energy Fund may be obligated to bear defense, settlement, and other costs (which may be in excess of insurance coverage therefor provided by the ColHB2 Energy Fund at such Fund's expense for such purposes), and the investment adviser of such Fund and others may be entitled to

indemnification under, and subject to the terms of, such Fund's investment agreement and/or other agreements entered into by such Fund.

*Risky and Illiquid Investments.* Oil and Gas Industry investments carry significant operational and financial risk and uncertainty, including risks that the internal processes and systems designed to operate a business, property or other entity safely and efficiently are in some fashion inadequate or that the individuals tasked with managing such processes and systems fail to properly carry out their functions. In addition, investments in a ColHB2 Energy Fund are illiquid and there can be no assurance any such investment will be realized in a timely manner. Illiquidity may result from the absence of an established market for the investments, as well as legal or contractual restrictions on the investment's resale by the applicable ColHB2 Energy Fund. Further, investments in private equity funds may be particularly illiquid, as there is often no secondary market in private equity securities and private equity investments often have "lock-up periods" during which an investor may not sell its interests.

*Highly Competitive Market for Investment Opportunities.* The activity of identifying, completing, and realizing attractive investments that fall within the ColHB2 Energy Funds' investment objectives is highly competitive and involves a high degree of uncertainty and will be subject to market conditions. The ColHB2 Energy Funds will be competing for investments with other investment funds, as well as individuals, companies (including major international oil companies), financial institutions, sovereign wealth funds, and other investors, many of which have substantially greater resources and more experience investing in the oil and gas industry than the ColHB2 Energy Funds. Further, over the past several years, an ever increasing number of investment funds have been formed (and many existing funds have grown in size) in part to invest in the energy and/or Oil and Gas Industry. Additional funds, entities, or vehicles with similar investment objectives may be formed in the future. It is possible that competition for appropriate investment opportunities may increase, which may also require the ColHB2 Energy Funds potentially to participate in auctions more frequently. The outcome of these auctions cannot be guaranteed, thus potentially reducing the number of investment opportunities available to each Fund and potentially adversely affecting the terms, including price, upon which investments can be made. The ColHB2 Energy Funds intend to be selective in their approach to targeting investments, and there is no guarantee that investments meeting the ColHB2 Energy Funds' investment criteria will be available or all of the Funds' investments will meet such criteria. Purchasers of Fund interests may not have an opportunity to evaluate for themselves the relevant economic, financial, and other information regarding the investments to be made by a ColHB2 Energy Fund and, accordingly, in such instances, will be dependent upon the judgment and ability of the General Partner and the ColHB2 Advisors in sourcing transactions and investing and managing the capital of a Fund. Additionally, competition for investment opportunities from other investment vehicles has increased on a global scale. Private equity and other funds, whether located in Europe, Asia, or other market regions, are making global competition increasingly intense. There can be no assurance that the addition of new U.S. and/or non-U.S. sponsors to the market will not occur and, if it does occur, the addition of such sponsors could intensify this effect. Furthermore, there can be no assurance that any ColHB2 Energy Fund will be able to locate, acquire, complete, and exit investments that satisfy their respective Fund's investment objectives, or realize upon its investment values, or that it will be able to fully invest its committed capital. In addition, ColHB2 Energy's investment strategies for certain investments may depend on its ability to enter into satisfactory relationships with joint venture and/or operating partners. There can be no assurance that ColHB2 Energy's current relationship with any such partner or operator will continue (whether on currently applicable terms or otherwise) with respect to any ColHB2 Energy Fund or that any relationship with other such persons will be able to be established in the future with respect to any sector or geographic market and on terms favorable to any Fund. The ColHB2 Energy Funds expect to benefit from synergies created from Haloroc and Colony Capital operating together. To the extent that these synergies do not come to fruition as expected or are not sustainable for the entirety of any ColHB2 Energy Fund's term, a Fund's performance may be negatively impacted. In the event any ColHB2 Energy Fund successfully implements its investment strategy and benefits from successful synergies between Haloroc and Colony Capital, other third parties may attempt to replicate the success of the model, which may create additional competition for a Fund in sourcing investment opportunities, hiring qualified personnel or contracting with preferred service providers.

*Manager Risk.* The ColHB2 Energy Funds are subject to the risk that the ColHB2 Advisors' management of investments on behalf of the ColHB2 Energy Funds may not produce the desired results and may have an adverse impact on the ColHB2 Energy Fund. The ColHB2 Energy Funds are also subject to the risk that Colony HB2's internal business structure, reputation or strategic initiatives will limit Colony HB2 from competing successfully for investment opportunities on behalf of the ColHB2 Energy Funds or be disruptive to the services provided to the ColHB2 Energy Funds.

*The ColHB2 Energy Funds' Market Investments Lack Sector Diversity.* Because of the ColHB2 Energy Funds' investment strategies, they are expected to invest almost exclusively in the oil and gas sector. This lack of diversification could result in greater losses than otherwise might be anticipated, as the ColHB2 Energy Funds may be more susceptible to any single economic, political or regulatory occurrence and more volatile than a more diversified fund.

*Cyber Security Risk.* As the use of technologies, such as the internet, has become more common in conducting business, ColHB2 Energy Funds may be more susceptible to operational, information security, and related risks in connection with breaches in cyber security. Generally, a cyber security failure may result from either intentional attacks or unintentional events and include, but are not limited to, gaining unauthorized access to digital systems, misappropriating assets or sensitive information, causing a ColHB2 Energy Fund to lose proprietary information, corrupting data, or causing operational disruption, including denial-of-service attacks on websites. A cyber security failure could cause a ColHB2 Energy Fund and/or Colony HB2 and/or its affiliates to become subject to regulatory penalties, reputational damage, additional compliance costs associated with corrective measures, and/or financial losses. Cyber security failures may involve third party service providers, joint venture partners, and investments made by, or counterparties in transactions with, Colony HB2 and/or its affiliates or the ColHB2 Energy Funds. ColHB2 Energy has established policies and procedures reasonably designed to reduce the risks associated with cyber security failures; however, there can be no assurance that these policies and procedures will prevent or mitigate the impact of cyber security failures.

*Key Personnel Risk.* The ColHB2 Energy Funds are subject to the risk that they will lose the services provided by key personnel of Colony HB2. It may be difficult or disruptive for Colony HB2 to replace the experience of these key personnel and the relationships they have developed with Oil and Gas Industry professionals and financial institutions.

*Valuation Matters.* The fair value of all investments may be determined by the general partner in accordance with the ColHB2 Energy Fund's Governing Documents. Accordingly, the carrying value of an investment may not reflect the price at which the investment can be sold in the market, and the difference between carrying value and the ultimate sales price can be material. As a result, there may be circumstances where the general partner of a Fund is incentivized to determine valuations that may be higher than the actual fair value of investments.

*Investment Related Risks.* While the ColHB2 Energy Funds are expected to focus primarily on Oil and Gas Industry investments, the Funds may make open-market purchases of publicly traded securities, which may include secured or unsecured debt at various levels of an issuer's capital structure which may be subordinated to substantial amounts of senior indebtedness and other parts of an issuer's capital structure will remain that are senior to the investments made by such Fund (e.g., senior secured debt). In addition, the securities in which the ColHB2 Energy Funds may invest may not be protected by financial covenants or limitations upon additional indebtedness, may have limited liquidity, and may not be rated by a credit rating agency. Debt securities are also subject to other creditor risks, including (i) the possible invalidation of an investment transaction as a "fraudulent conveyance" under relevant creditors' rights laws, (ii) so-called lender liability claims by the issuer of the obligations, and (iii) environmental liabilities that may arise with respect to collateral securing the obligations. The ColHB2 Energy Funds' investments may be subject to early redemption features, refinancing options, pre-payment options, or similar provisions which, in each case, could result in the issuer repaying the principal on an obligation held by a Fund earlier than expected, resulting in a lower return to a Fund than anticipated or underwritten. In addition, depending on fluctuations of the equity markets and other factors, warrants and other equity securities may become worthless. Accordingly, there can be no assurance that any ColHB2 Energy Fund's rate of return objectives will be realized.

*Third Party and Co-Investment Risk.* Clients may co-invest with third parties. These transactions potentially raise conflicts of interest. For example, a Client may co-invest with certain Colony Capital or Haloroc funds, current limited partners of the Client or other market participants with which Colony Capital, Colony HB2, ColHB2 Energy, or an affiliate, has important business relationships, and such relationships could influence the decisions made by the Client's general partner and/or Colony Capital or Haloroc with respect to the purchase or sale of such investments. Further, such third parties could have interests that may be contrary to such Client's investment objective or which may conflict with the Client's interest. In those circumstances where such third parties involve a management group, such third parties may receive compensation relating to such investments, including incentive compensation arrangements. There can be no assurance that the foregoing will not have an adverse impact on the Client's ability to find, consummate and/or exit investments.

*Capital Calls and Use of Subscription Lines and Asset-Backed Credit Facilities.* Calculations of net and gross IRRs in respect of investment and performance data with respect to the ColHB2 Energy Fund, as reported to limited partners from time to time, are based on the payment date of capital contributions received from limited partners. This treatment also applies in instances where the ColHB2 Energy Fund may utilize borrowings under a subscription-based credit facility in lieu of capital contributions or in advance of receiving capital contributions from limited partners to repay any such borrowings and related interest expense. As a result, use of a subscription-based credit facility (or other long-term leverage) with respect to investments will impact calculations of returns and will result in a higher or lower reported IRR than if the facility had not been utilized and instead the limited partners' capital had been contributed at the inception of an investment, which will present conflicts of interest as a result of certain factors, including the interest rate on such borrowings typically being less than the rate of the preferred return and that such preferred return does not accrue on such borrowings, and only accrues on capital contributions when made. As a result, use of such long-term leverage arrangements with respect to investments may effectively reduce or eliminate the preferred return received by the limited partners and accelerate or increase distributions of carried interest to the general partner of the Fund thereby providing such general partner with an economic incentive to fund investments through long-term borrowings in lieu of capital contributions. Subject to the limitations in any Governing Document, the use of a subscription-based credit facility by any ColHB2 Energy Fund is within its general partner's discretion. To the extent that any Fund is unable to obtain a subscription line or an asset-backed credit facility, determines that the terms of such facility would not be appropriate for such Fund or otherwise determines not to use such facility or access to such facility otherwise becomes unavailable, the general partner of such Fund may determine in its sole discretion to draw down commitments in advance and hold them in reserve in order to make investments, to satisfy fees and expenses, and to satisfy other capital needs that may arise in the future.

## **Risks Relating to Oil and Gas Industry Investments and ColHB2 Energy**

*Drilling for and producing oil and gas are high risk activities with many uncertainties that could adversely affect a ColHB2 Energy Fund's business, financial condition or results of operations.* A ColHB2 Energy Fund's future financial condition and results of operations will depend on the success of its development, production and acquisition activities, which are subject to numerous risks beyond its control, including the risk that drilling will not result in commercially viable oil and gas production. The exploration and development of oil and gas properties depend in part on analysis by developers of geophysical, geologic, engineering, production and other technical data and processes. Such analyses are often inconclusive or subject to varying interpretations. Oil and gas developers are also subject to risks of equipment failures, accidents, environmental hazards, unusual geological formations or unexpected pressure or irregularities within formations, adverse weather conditions, permitting or construction delays, title disputes, surface access disputes, disappointing drilling results or reservoir performance (including lack of production response to workovers or improved and enhanced recovery efforts) and other associated risks. Further, the oil and gas industry is capital intensive. Oil and gas development projects are particularly susceptible to risks of cost overruns and delays. Budgeted costs for planning, drilling, completing and operating wells can increase significantly when drilling costs rise due to a tightening in the supply of various types of oilfield equipment and related services or unanticipated geologic conditions. Any of the foregoing risks could materially and adversely impact the ColHB2 Energy Fund's financial condition and overall performance.

*ColHB2 Energy Funds are not, and may not be in the future, the operator for their exploration and development investments. Therefore, ColHB2 Energy Funds have limited control over the timing of exploration or development efforts, associated costs, and the rate of production of its assets.* For the oil and gas investments that a ColHB2 Energy Fund does not operate, the Fund will be highly dependent on third-party operators for the timing of activities related to such developments and will largely be unable to direct or control the activities of the operators. The objectives and strategy of those operators may not always be consistent with a ColHB2 Energy Fund's, and it will have a limited ability to exercise influence over, and control the risks associated with, operations of the exploration and development activities for these development projects. The failure of a third-party operator to adequately perform operations for the anticipated exploration and development activities, a third-party operator's breach of the applicable agreements or a third-party operator's failure to act in ways that are in a ColHB2 Energy Fund's best interests could reduce production and revenues from a ColHB2 Energy Fund's assets or could increase costs or create liability for the third-party operator's failure to properly maintain the wells, equipment and facilities and to adhere to applicable safety and environmental standards.

*Oil, and gas prices are volatile.* A sustained decline in oil and gas prices could materially and adversely affect Colony HB2's business, financial condition and results of operations and its ability to meet its capital expenditure obligations and financial commitments. Historically, oil and gas prices have been volatile and are subject to fluctuations in response to changes in supply and demand, market uncertainty and a variety of additional factors that are beyond our control. These factors include, without limitation, market supply and demand, geopolitical conditions and events, including political conditions in the Middle East and other oil and gas producing nations, weather conditions, tax policy, changes in law and regulation, the price and availability of alternative fuels and energy sources, terrorist acts or threats thereof, actions of the Organization of Petroleum Exporting Countries (and other oil and gas producing nations), the foreign supply of (and demand for) oil and gas, the price of foreign imports and overall economic conditions. These factors and the volatility of the energy markets make it extremely difficult to predict future oil and gas price movements with any certainty.

*Reserves for capital expenditures or operations may prove inadequate.* Although each ColHB2 Energy Fund is expected to maintain reserves for capital expenditures that typically arise in relation to its business, these reserves may be inadequate if assumptions and estimates are inaccurate. Costs and expenses for these capital and operating expenditures over and above budgeted expenses could adversely affect performance.

*Uninsured Losses; Casualty Insurance.* Certain risks in connection with the business of Colony HB2 are either uninsurable or not insurable at commercially reasonable rates, and could have a detrimental effect on Colony HB2 and its affiliates. Examples of uninsurable losses are those arising from flood, earthquakes, war, and acts of God, among others. In addition, pollution and environmental risks generally are not fully insurable. Should such an uninsurable loss occur, a ColHB2 Energy Fund could suffer a loss of some or all of its invested capital, as well as the loss of any potential distributions or profits from its operations.

*Environmental Risks.* The Oil and Gas Industry involves various environmental risks and hazards including pollution and geological problems. In addition, project owners and developers in the Oil and Gas Industry must comply with various international, foreign, federal, state and local health, safety and environmental laws and regulations governing, among other things, the emission and discharge of pollutants into the ground, air or water, the generation, storage, handling, use, transportation and disposal of regulated materials and the health and safety of project employees, contractors and communities in which the assets are located. Such contamination could have a detrimental effect on the investments made by a ColHB2 Energy Fund in third party-operated oil and gas assets, and can result from the actions of tenants, contractors, patrons, visitors, and other parties, including adjacent property owners to the locations where an operator-partner of a Colony HB2 Energy Fund operates, over whom a Fund could exercise little or no control. A ColHB2 Energy Fund could be required to participate financially in the cleanup or other abatement of such contamination, which could cause it to suffer a loss of some or all of its invested capital. Further, inspections performed on project sites may not always uncover or identify environmental problems and contractual indemnities may not be available



to mitigate any harm caused by such problems. Complying with the numerous applicable environmental laws and regulations as well as the occurrence of any environmental problems, whether or not covered by insurance, may result in substantial liabilities and costs, which could materially and adversely impact a ColHB2 Energy Fund's financial performance.

*Potential Conflict of Interest.* The obligations of some members of Management to Colony HB2 are not exclusive, and those members of Management need only devote so much time to Colony HB2's affairs as the Management, in its sole discretion, determines to be necessary to manage those businesses. The Management and/or its affiliates may, from time to time, be involved in the development of other properties and businesses that may compete with the businesses of Colony HB2.

*Regulatory Risk.* Companies in the Oil and Gas Industry are subject to significant federal, state and local government regulation in many aspects of their operations. Various governmental authorities have the power to enforce compliance with these regulations and the permits issued under them, and violators are subject to administrative, civil and criminal penalties, including civil fines, injunctions or both. Governmental authorities may also impose regulatory reviews or approval processes in connection with certain drilling or developmental activities. Complying with regulatory requirements and obtaining regulatory approvals may impose substantial additional obligations on the operators and developers of the properties in which the Fund invests, and may result in such operator or developer incurring additional costs, delays in the implementation of business plans as well as having increased exposure to penalties or fines. Stricter laws, regulations or enforcement policies could be enacted in the future which would likely increase compliance costs and may adversely affect financial performance.

*Properties in which a ColHB2 Energy Fund acquires a participating interest may not produce as projected, and the third-party operator may be unable to determine reserve potential, identify liabilities associated with the properties that it acquires or obtain protection from sellers against such liabilities.* Investing in oil and gas properties requires Colony HB2 to assess reservoir and infrastructure characteristics, including recoverable reserves, future oil and gas prices and their applicable differentials, development and operating costs, and potential liabilities, including environmental liabilities. In connection with these assessments, Colony HB2 performs a review of the subject properties that it believes to be generally consistent with industry practices. Such assessments are inexact, inherently uncertain and may not reveal all existing or potential problems. For these reasons, the properties in which a ColHB2 Energy Fund acquires a participating interest may not produce as expected. In the course of its due diligence, Colony HB2 may not review every well, pipeline or associated facility. It cannot necessarily observe structural and environmental problems, such as groundwater contamination, when a review is performed. A ColHB2 Energy Fund may be unable to obtain contractual indemnities from the seller or operator for liabilities created prior to its investment or operation of the property. A Fund may be required to assume the risk of the physical condition of the properties in addition to the risk that the properties may not perform in accordance with its expectations.

*Reserve estimates depend on many assumptions that may turn out to be inaccurate. Any significant inaccuracies in reserve estimates or underlying assumptions will materially affect the quantities and present value of a ColHB2 Energy Fund's reserves.* The process of estimating oil and gas reserves is complex. It requires interpretations of available technical data and many assumptions, including assumptions relating to current and future economic conditions and commodity prices. Any significant inaccuracies in these interpretations or assumptions could materially affect the estimated quantities and present value of ColHB2 Energy Fund's reserves versus the reports provided to it by its consultants currently under contract.

*Colony HB2's business is difficult to evaluate because it has a limited operating history, and it is susceptible to the difficulties associated with rapid growth and expansion.* Colony HB2 was formed in 2018. As a result, there is limited financial and operating information available upon which to base an investor's evaluation of its performance.

*Properties that Colony HB2 or its affiliates decide to drill may not yield oil or gas in commercially viable quantities.* Properties that Colony HB2 or its affiliates decide to drill that do not yield oil or gas in commercially viable quantities will adversely affect its results of operations and financial condition. There is no way to predict in advance of drilling and testing whether any particular prospect will yield oil or gas in sufficient quantities to recover drilling or completion costs or to be economically viable.

*Demand for Oil and Gas.* The ColHB2 Energy Funds will invest in businesses that are dependent on the demand for oil and gas. A decrease in demand for oil and gas in the United States or globally could impact the price at which a ColHB2 Energy Fund or a company in which it invests sells its production, affect the ability of vendors, suppliers and customers to continue operations, the costs of production equipment and availability of supplies, and ultimately adversely impact the results of operations, liquidity and financial condition of the ColHB2 Energy Fund and its investments. Demand may be impacted by various factors that are primarily outside the control of a ColHB2 Energy Fund.

*Use of Derivatives.* The ColHB2 Energy Funds may engage in commodity-price risk-management activities, which could prevent the Funds from realizing the full benefits of oil and gas price increases above any levels set in certain derivative instruments that may be used to manage price risk. In addition, such commodity-price risk-management activities may expose the Funds to the risk of financial loss in certain circumstances, including instances in which the counterparties to the Funds' hedging or other price-risk management contracts fail to perform under those arrangements.

*Concentration Risk.* A ColHB2 Energy Fund may concentrate its investments in a single geographic area. As a result, the success and profitability of the Fund's operations may be disproportionately exposed to the effect of regional conditions. These include local price fluctuations, changes in state or regional laws and regulations affecting our operations and other regional supply and demand factors, including gathering, pipeline, transportation and storage capacity constraints, limited potential customers, infrastructure capacity and availability of rigs, equipment, oil field services, supplies and labor. The Fund's operations may also be exposed to natural disasters and other nature-related events common to such particular geographic area, such as wildfires, mudslides, high winds and earthquakes. Any one of these events has the potential to cause producing wells to be shut in, delay operations and growth plans, decrease cash flows, increase operating and capital costs, prevent development of lease inventory before expiration and limit access to markets for the Funds' products.

## **Item 9: Disciplinary Information**

Neither ColHB2 Energy nor any of its officers, directors, employees or other management persons, have been involved in any legal or disciplinary events in the past 10 years that would require disclosure in response to this Item.

## **Item 10: Other Financial Industry Activities and Affiliations**

ColHB2 Energy and its affiliates serve as manager, adviser, general partner and managing member to Clients. ColHB2 Energy and its affiliates will devote such time as shall be necessary to conduct the business affairs of each of its Clients in an appropriate manner. However, personnel of ColHB2 Energy and its affiliates will work on several projects at any time and, therefore, conflicts may arise in the allocation of personnel and other management resources. ColHB2 Energy and its affiliates are not required to manage any one Client as its sole and exclusive function, and ColHB2 Energy, its affiliates and their respective agents, officers, directors and employees may engage in or possess any interests in business ventures and may generally engage in other activities independently or with others, including the rendering of advice or services of any kind to other investors and the making or management of other investments or other investment Clients.

Each ColHB2 Advisor is an indirect subsidiary of Colony Capital and Haloroc. In some cases, ColHB2 Advisors, ColHB2 Energy, Colony HB2, a Colony Capital affiliate, or a Haloroc affiliate may have business arrangements with

related persons/companies that are material to their advisory business or to the ColHB2 Energy Fund. In some cases, these business arrangements may create a potential conflict of interest, or appearance of a conflict of interest between a ColHB2 Advisor and a ColHB2 Energy Fund. ColHB2 Energy has established and implemented policies and procedures to help mitigate some of these conflicts.

ColHB2 Energy's investment professionals devote time to the management of multiple ColHB2 Energy Funds and, in certain instances, Strategic Vehicles (defined below), which may impact allocations of management resources. In addition, a ColHB2 Energy Fund may have an investment mandate that is similar to and/or overlapping with the investment mandates of other ColHB2 Energy Funds, which may create conflicts in the allocation of investment opportunities between ColHB2 Energy Funds. Certain ColHB2 Energy Funds and other companies, funds or vehicles may be co-sponsored, co-branded or co-founded by, or subject to strategic relationships between, ColHB2 Energy and strategic or joint venture partners of ColHB2 Energy (collectively, "Strategic Vehicles"). Therefore, many investment opportunities sourced by ColHB2 Energy's investment professionals or ColHB2 Energy's strategic or joint venture partners may be suitable for multiple ColHB2 Energy Funds and/or Strategic Vehicles, which also may create conflicts in the allocation of investment opportunities. Investment opportunities sourced by ColHB2 Energy's investment professionals are allocated to one or more ColHB2 Energy Funds, Strategic Vehicles or affiliates of ColHB2 Energy ("Affiliated Entities") in accordance with the allocation policy adopted by ColHB2 Energy and approved by each ColHB2 Energy Fund from time to time. (See Item 12: Brokerage Practices—Allocation Policy).

ColHB2 Energy may recommend that one ColHB2 Energy Fund invest in, or engage in transactions with, other ColHB2 Energy Funds. ColHB2 Energy has an incentive to favor investments in or between, or corporate combinations, reorganizations or other transactions between or among, two or more ColHB2 Energy Funds that may increase ColHB2 Energy's overall remuneration.

## **Item 11: Code of Ethics, Participation or Interest In Client Transactions and Personal Trading**

### **Code of Ethics**

ColHB2 Energy has adopted a Code of Ethics (the "Code") that applies to all ColHB2 Energy access persons. This Code describes the standard of conduct that ColHB2 Energy requires of all of its access persons and describes certain restrictions on activities such as personal trading, receipt of material, non-public information, and engaging in outside business activities. Compliance with the Code is a condition of employment for all of ColHB2 Energy's access persons, and a serious violation of the Code or its related policies may result in serious reprimand, up to and including dismissal. Certain key provisions of the Code are summarized below. ColHB2 Energy will provide a copy of the Code to any client or prospective client upon request.

### **Personal Trading**

Employees considered "access persons" within the meaning of Rule 204A-1 under the Advisers Act may purchase and sell for their own accounts the same securities purchased or sold on behalf of Clients. However, given the nature and size of the investments made on behalf of Clients, such personal trading activity is not expected to be likely. Notwithstanding the probability of such activity, because the Code permits employees to invest in the same securities as Clients, there is a possibility that employees might benefit from market activity by a Client in a security or other investment held by an employee. To mitigate this possible conflict of interest and others that may arise, ColHB2 Energy has established policies requiring "access persons" to obtain pre-clearance before investing in certain reportable securities such as initial public offerings and private placements (including private equity fund and hedge fund investments). In addition, ColHB2 Energy monitors for conflicts of interest on a periodic basis and will not allow any of its "access persons" to buy or sell securities for their own accounts at or about the same time that ColHB2 Energy buys or sells securities or other investments for Clients if ColHB2 Energy feels that there is a possibility that the personal trade would benefit from ColHB2 Energy's investment activities.

All of ColHB2 Energy's access persons are required to annually certify that they have complied with the Code and ColHB2 Energy's access persons are required to make annual reports regarding their personal securities account holdings and quarterly reports regarding their personal securities trading activity.

### **Participation or Interest in Client Transactions**

ColHB2 Energy's access persons must obtain prior permission of the CCO or designee for certain transactions that appear to pose a conflict of interest or otherwise appear improper. In particular, all ColHB2 Energy access persons must have written pre-clearance for all transactions involving initial public offerings and private placements before completing the transactions. Additionally, co-investments with Clients could present conflicts of interest if not properly structured and monitored. As such, ColHB2 Energy access persons must have pre-clearance for all transactions involving co-investments alongside Clients before completing the transactions. The CCO or designee is responsible for monitoring co-investments by ColHB2 Energy and its access persons. ColHB2 Energy maintains one or more lists of restricted securities in which ColHB2 Energy may have material non-public information. ColHB2 Energy access persons are prohibited from trading in issuers on the restricted list unless specifically approved by the CCO or designee.

### **Gifts and Entertainment**

ColHB2 Energy has policies in place governing the types and value of gifts and forms of entertainment that its access persons may accept or give from or to broker-dealers, vendors, current or prospective clients.

### **Cross-Trades**

From time to time ColHB2 Energy may execute cross trades among Clients. ColHB2 Energy only will execute cross trades between Client accounts when such a transaction is reasonably expected to be advantageous to both participants. Any such transactions must be in accordance with applicable law, Governing Documents and ColHB2 Energy's internal policies and procedures. ColHB2 Energy may, in certain instances, receive a fee in connection with cross trades among Clients. If a fee is charged in connection with a cross trade, ColHB2 Energy provides information on the fee related to the cross trade to the board of directors, general partner, or similar governing body, as applicable, for approval.

### **Other Conflicts**

ColHB2 Energy manages investments on behalf of different Clients. Certain Clients have investment programs that are similar or may overlap and may, therefore, participate with each other in (or compete for) investments. Because of the diversity of investment strategies and objectives, risk tolerances, capital positions, tax situations and differences in the timing of capital contributions and withdrawals, there will be differences in invested positions held or investment appetites among the Clients. Any allocation of investments among the Clients by ColHB2 Energy will be made in a manner consistent with each Client's investment objectives. Investment decisions and allocations are not necessarily made in parallel among all of the Clients. In all cases, allocation requirements (if any) set forth in the Clients' Governing Documents will control. ColHB2 Energy in its sole discretion may allow multiple Clients to co-invest in a particular investment, based upon a variety of factors including, among other factors, investment strategy, mandate or area of focus; risk management (e.g., volatility, liquidity, diversification and concentration in light of each Client's existing portfolio and investment pipeline); fund restrictions or limitations; tax or legal considerations; and cost or availability of financing. Because ColHB2 Energy may allocate a particular investment among the Clients unequally, the Clients may produce results that are materially different from one another. See, also, "Allocation Policy", in Item 12, below.

## **Item 12: Brokerage Practices**

### **Transaction Execution and Broker-Dealer Selection**

As the ColHB2 Energy Funds intend to invest primarily in private investments, ColHB2 Energy and its affiliates do not expect to engage in active trading of publicly traded securities. To the extent ColHB2 Energy or the ColHB2 Energy Funds transact in publicly traded securities, ColHB2 Energy will seek to facilitate such transactions through the retention of professional services firms that provide high quality services at reasonable costs. ColHB2 Energy seeks to minimize the cost and expense of investment transactions effected on behalf of ColHB2 Energy Fund while also seeking to achieve the most efficient structure of such investments, taking into account, among other things, tax, regulatory and client-specific considerations. These costs and expenses may vary from Fund to Fund, and transactions may be effected differently for one ColHB2 Energy Fund than another, as a result of various factors, including, without limitation, the location of a Client, the location and nature of the particular investment involved, and other Client-specific considerations. In certain instances, ColHB2 Energy may aggregate assets among ColHB2 Energy Funds in connection with a portfolio sale in order to seek best execution for each Fund. In such instances, the applicable ColHB2 Energy Fund will share transaction expenses on a pro-rata basis.

ColHB2 Energy may use unaffiliated brokers, which are selected on the basis of: (i) the reasonableness of such brokers' commissions relative to others offering similar services; and (ii) the ability of such brokers to obtain best execution. Not all portfolio transactions require or involve a broker-dealer. When it is deemed necessary or appropriate to involve a broker-dealer in portfolio transactions for the ColHB2 Energy Funds, such transactions will be allocated to brokers and dealers on the basis of ColHB2 Energy's best execution policies. The factors considered in selecting and approving brokers-dealers that may be used to execute trades for a ColHB2 Energy Fund's accounts include, but are not limited to: (i) quality of execution – accuracy and timeliness of execution, clearance and error/dispute resolution; (ii) reputation, financial strength and stability; (iii) market making and risk positioning capabilities; (iv) willingness to execute transactions on terms requested or required; (v) willingness and ability to commit capital for trading as well as financing requests; (vi) access to investment opportunities; (vii) on-going reliability; (viii) overall costs of execution (i.e., net price paid or received) including commissions, mark-ups, mark-downs or spreads in the context of the firm's knowledge of negotiated transaction costs available in the market; (ix) nature of the investment or security and the available market makers; (x) desired timing of the transaction and size of transaction; (xi) confidentiality of execution; (xii) market knowledge; and (xiii) the quality of brokerage or research.

### **Allocation Policy**

ColHB2 Energy has adopted an allocation policy that applies to investment opportunities which have limited capacity and/or time availability. This policy directs ColHB2 Energy to allocate investment opportunities among ColHB2 Energy Funds, Strategic Vehicles and Affiliated Entities in a manner that is fair and equitable over time.

When ColHB2 Energy sources an investment opportunity, ColHB2 Energy, in its sole discretion, will offer the opportunity to the entity for which it determines the investment opportunity is most suitable. When determining the entity for which an investment opportunity would be the most suitable, ColHB2 Energy personnel may consider several factors, which may include, among others, as appropriate: the vehicle's investment objectives, strategy and criteria; cash requirements; the effect of the investment on the diversification of the portfolio, including by geography, size of investment, type of investment and risk of investment; leverage policy and the availability of financing for the investment; anticipated cash flow of the asset to be acquired; income tax effects of the purchase; size of the investment; amount of funds available; cost of capital; risk return profiles; targeted distribution rates; anticipated future pipeline of suitable investments; expected holding period for the investment and the remaining term of the investment vehicle; affiliate and/or related party considerations; and whether any special allocations have been made to the investment vehicle.

If, after consideration of the relevant factors, ColHB2 Energy determines that an investment is equally suitable for more than one ColHB2 Energy Fund, Strategic Vehicle or Affiliated Entity, the investment will be allocated among each of the applicable ColHB2 Energy Fund, Strategic Vehicles or Affiliated Entities on a rotating basis. New clients will be initially added to the end of the rotation. If, after an investment has been allocated, a subsequent event or development, such as delays in structuring or closing on the investment, makes it, in the opinion of ColHB2 Energy's investment professionals, more appropriate for a different entity to fund the investment, ColHB2 Energy may determine to place the investment with the more appropriate entity while still giving credit to the original allocation. In certain situations, ColHB2 Energy may allow more than one ColHB2 Energy Fund, Strategic Vehicle and/or Affiliated Entity to co-invest in a particular investment. A ColHB2 Energy Fund, Strategic Vehicles and/or Affiliated Entities may have different allocation preferences. In addition, Strategic Vehicles may receive preference in the allocation of an investment opportunity that is initially presented to ColHB2 Energy by the applicable strategic or joint venture partner. In accordance with ColHB2 Energy's Allocation Policy, some investors may have priority pertaining to certain co-investment deals. In addition, a dedicated mandate may cause a Client to have priority over certain other Clients with respect to investment opportunities.

ColHB2 Energy will allocate third-party acquisition costs incurred in connection with the selection, acquisition or origination of an investment to those Clients who acquire or originate the investment. Such allocation will be made in accordance with each Client's allocation of the investment opportunity. If ColHB2 Energy does not complete a proposed investment, it will allocate any third-party acquisition costs (Broken Deal Costs) incurred to date, to those Clients that would have acquired or originated the investment in accordance with the allocations set out in the applicable investment allocation. If ColHB2 Energy does not complete an investment before making an investment allocation, it will allocate the Broken Deal Costs to the Client or Clients for which the investment opportunity was suitable. If multiple Clients, such Broken Deal Costs will be allocated pro-rata. Such broken deal costs will generally not be allocated to co-investors, including co-investment vehicles managed by affiliates of the General Partner, and will be borne by the ColHB2 Energy Funds.

### **Item 13: Review of Accounts**

Each Client is monitored by a team that is responsible for performance monitoring and reporting, financial risk management and all non-Oil and Gas Industry aspects of the Client such as corporate, legal, tax, accounting, financing, hedging and cash distribution. The team also monitors the due diligence process applicable to potential investments for a Client, transaction structuring, acquisition budgets and transaction documentation. Additionally, ColHB2 Energy has certain investment committee(s) that approves each investment (or other significant investment-related or corporate activity) made on behalf of a Client and the allocation of those investments, as discussed in Item 12.

Certain Clients prepare unaudited reports on a quarterly basis, providing summary financial and other information about the Client, and audited financial statements of the Client annually. ColHB2 Energy may provide certain investors with information on a more frequent and detailed basis if agreed to by ColHB2 Energy.

### **Item 14: Client Referrals and Other Compensation**

ColHB2 Energy generally does not engage any parties to solicit clients, nor does it receive compensation from sources other than its clients for providing advice to its ColHB2 Energy Fund clients; however, ColHB2 Energy may enter into arrangements with, and compensate solicitors for client referral activities. These solicitation arrangements will be fully disclosed to affected ColHB2 Energy Fund clients and will comply with the requirements of Rule 206(4)-3 of the Advisers Act.

Additionally, ColHB2 Energy may engage, or cause its ColHB2 Energy Fund clients to engage and compensate placement agents for introducing ColHB2 Energy Fund clients to, and to market and sell interests or shares in

ColHB2 Energy Funds clients to, prospective investors, in such ColHB2 Energy Funds. ColHB2 Energy requires placement agents to have all appropriate licenses and registrations to conduct their business, including when applicable, to be registered as broker-dealers with the SEC and to be members of FINRA. Subject to its duty to obtain best execution, ColHB2 Energy may take such introductions into account as a factor in the selection of brokers to execute portfolio transactions for ColHB2 Energy Funds.

#### **Item 15: Custody**

In connection with the management of investments for Clients, ColHB2 Energy may have, or may be deemed to have, custody of a Client's funds or securities. Rule 206(4)-2 under the Advisers Act (the "Custody Rule"), which defines custody as holding client securities or assets or having any authority to obtain possession of them, including the authority to withdraw funds or securities from a client's accounts or ownership of or access to client funds or securities (such as through fee deductions).

ColHB2 Energy expects that each Client for which it is deemed to have custody will: (i) be audited at least annually by an independent public accountant; and (ii) distribute its audited financial statements prepared in accordance with generally accepted accounting principles to its investors within 120 days of its fiscal year-end. Investors should contact ColHB2 Energy if they fail to receive such financials timely.

#### **Item 16: Investment Discretion**

As a general rule, ColHB2 Energy receives discretionary investment authority from each Client at the outset of an advisory relationship. Depending on the terms of the Client asset management or advisory agreement, ColHB2 Energy's authority may include the ability to select brokers and dealers through which to execute transactions on behalf of the relevant Client, and select the commission rates, if any, at which transactions are effected. In making decisions as to which securities are to be bought or sold and the amounts thereof, ColHB2 Energy is guided by the mandate selected by the Client and any investment guidelines or restrictions imposed by the Client. ColHB2 Energy generally is not required to provide notice to, consult with, or seek the consent of the Client prior to engaging in transactions that fall within a Client's approved investment guidelines.

#### **Item 17: Voting Client Securities**

Because of the private nature of its investments, the ColHB2 Energy Funds' investments are not likely to be subject to proxy vote; however, ColHB2 Energy may, on occasion, receive proxy voting proposals with respect to listed equity securities. Additionally, ColHB2 Energy may, from time to time, receive amendments, consents or resolutions applicable to investments held by Clients (collectively, "proxies"), and is generally granted authority to vote and consent on such matters on behalf of Clients.

ColHB2 Energy seeks to vote each Client's proxies in the best interest of that Client and in a manner consistent with its fiduciary duties and has adopted proxy voting policies and procedures designed to ensure that proxies are properly voted and that any conflicts of interest are addressed appropriately. Due to the difficulty of predicting and identifying material conflicts, ColHB2 Energy relies on its access persons, such as portfolio managers and/or investment management teams, to notify the CCO or designee of material conflicts that may impair ColHB2 Energy's ability to vote proxies appropriately. ColHB2 Energy may have conflicts of interest, for example, where it has a substantial business relationship with a company and a failure to vote in favor of a company management could harm ColHB2 Energy's relationship with company management. If a material conflict exists, the CCO or designee will take such steps as he or she deems necessary in order to determine how to vote the proxy in the best interests of the client, including, but not limited to, consulting with the legal department, outside counsel, a proxy consultant or the investment professionals responsible for the relevant portfolio investment. In each instance, when exercising its voting discretion, ColHB2 Energy seeks to avoid any direct or indirect conflict of interest between its clients and its voting decision. One Client's best interests with respect to a proxy vote may diverge from the interests of other ColHB2 Energy Funds, joint venture partners, ColHB2 Energy and/or ColHB2 Energy's affiliates. This

may result in ColHB2 Energy casting votes for one Client that differs from votes cast for other Clients or in ColHB2 Energy taking other steps to mitigate any conflicts that may arise. In no event, however, will ColHB2 Energy be obligated to vote, or refrain from voting its own securities, securities held by another client or securities held by an affiliate or joint venture partner in a manner that is inconsistent with ColHB2 Energy's view as to the best interests of such holders, simply because a Client has a differing interest.

A copy of ColHB2 Energy's proxy voting policy and information with respect to any specific proxy votes submitted on behalf of the relevant Client may be obtained by contacting our CCO.

#### **Item 18: Financial Information**

ColHB2 Energy has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.