

Stonehill Capital Management LLC

Part 2A of Form ADV Firm “Brochure”

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This brochure provides information about the qualifications and business practices of Stonehill Capital Management LLC (“SCM”). If you have any questions about the contents of this brochure, please contact us at (212) 739-7474. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about SCM also is available on the SEC’s website at www.adviserinfo.sec.gov.

REGISTRATION WITH THE SEC AS AN INVESTMENT ADVISER DOES NOT IMPLY THAT SCM OR ANY PRINCIPALS OR EMPLOYEES OF SCM POSSESS A PARTICULAR LEVEL OF SKILL OR TRAINING IN THE INVESTMENT ADVISORY OR ANY OTHER BUSINESS.

Item 2 Material Changes

There have been no material changes made to this brochure since the last annual update in March 2018.

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Item 4 Advisory Business

SCM is a limited liability company organized under the laws of the State of Delaware in November 1999. The sole member of SCM is SCM, L.P., a limited partnership organized under the laws of the State of Delaware in December 2013. SCM is owned and controlled, through SCM, L.P. and its general partner, by seven individual Partners, one of whom, John A. Motulsky, has an ownership interest of more than 25% (but less than 35%).

SCM manages the portfolios of and provides administrative and other services to three private investment funds (Stonehill Institutional Partners, L.P. (“Institutional”), Stonehill Offshore Partners Limited (“Offshore”), and Stonehill Master Fund Ltd. (“Master” and, together with Institutional and Offshore, the “Funds”) in accordance with the terms of investment management agreements entered into between SCM and each of the Funds. Stonehill General Partner, LLC (“Stonehill GP”), a related person of SCM, acts as the general partner of Institutional. Offshore invests all of its assets in Master.

Offshore was formed and began operations in August 1996 and Institutional was formed and began operations in December 1997. Prior to January 2000, the Funds and a related fund that began operations in February 1994 were managed by a predecessor entity to SCM.

Investors and prospective investors in each Fund should refer to the confidential private placement memorandum for each Fund for more complete information about the investment objectives, risks, fees, expenses and other matters set forth herein with respect to a particular Fund. This Brochure does not constitute an offer to sell or the solicitation of an offer to purchase any securities of any Fund described herein. Any such offer or solicitation will be made solely to qualified investors by means of the appropriate private placement memorandum and related subscription materials.

SCM has broad, discretionary investment authority with respect to its management of the portfolios of the Funds. SCM is not bound by any specific restrictions on investing in particular securities or types of securities and is not obligated to structure any Fund’s investments in order to address or give effect to the individual objectives or considerations of any investors or group of investors in that Fund. The types of investments by the Funds will vary over time based on the perception of SCM as to relative opportunities, with an expected focus at most times on investments in high yielding, distressed and defaulted debt and related investments and other opportunistic investments. The Funds also make investments in markets experiencing significant dislocation. The Funds have broad investment parameters so that SCM can change a Fund’s investment focus if it determines that other investment strategies may be more attractive.

SCM manages all Fund assets on a discretionary basis in accordance with the terms and conditions of each Fund’s investment management agreement. As of January

1, 2019, SCM's regulatory assets under management were approximately \$2.7 billion, all of which are managed on a discretionary basis.

Item 5 Fees and Compensation

SCM provides investment management services on a fee basis, which includes fees or allocations based upon the value of the Funds' net assets under management, as well as allocations based on the performance of the Funds. Applicable fees and allocations are set forth and described in detail in the Funds' respective offering documents. Investors should refer to the relevant offering documents for a complete understanding of how SCM is compensated for its advisory services, the terms of which vary in certain respects for each Fund. A brief summary of certain aspects of the fees and expenses paid by clients is set forth below. All clients are "qualified purchasers" (as defined in section 2(a)(51)(A) of the Investment Company Act of 1940).

Offshore and Institutional pay monthly management fees to SCM and Institutional makes a monthly priority reallocation to Stonehill GP, in each case calculated and paid monthly in arrears based upon the value of the Funds' respective net assets at the beginning of each month. The priority reallocation made by Institutional will accrue but not be made at the end of any month with respect to any limited partner in Institutional to the extent that such limited partner has not earned sufficient cumulative profits for the current year to cover the priority reallocation. Any priority reallocation accrued but not made during a year in which a limited partner did not earn sufficient profits to cover the priority reallocation (a "loss year") will be carried forward (a "priority loss carryforward") and not made until the limited partner earns sufficient cumulative profits in a subsequent year(s) to cover the priority reallocation for both the current year and the loss year. If a limited partner withdraws capital subject to a priority loss carryforward within six years after the priority loss carryforward arises, the amount of the priority loss carryforward will be reallocated to Stonehill GP.

Stonehill GP receives performance-based allocations from the Funds on an annual basis in arrears and upon withdrawals/redemptions by investors in the Funds. Fees and allocations are deducted directly from client accounts. Performance-based compensation is generally charged at fiscal year-end but also is charged during a fiscal year upon an investor's withdrawal or redemption from a Fund. Although it has not historically done so (other than with respect to certain investments by SCM's affiliates, present and former partners and employees and related persons), SCM may waive, modify or calculate differently management fees and reallocations and/or performance-based fees or reallocations paid by any investor in any Fund on a case by case basis.

The Funds bear their own operating expenses, including all expenses reasonably determined by SCM to be related to the investment of each Fund's assets, other than those expressly required to be borne by SCM according to each Fund's governing documents. General categories of expenses borne by the Funds are summarized below, together with specific examples of such expenses, which list is not exhaustive:

- Expenses related to investments and prospective investments (including transactions that fail to close):
 - brokerage commissions;
 - interest on margin accounts and other indebtedness;
 - borrowing charges on securities sold short;
 - custodial fees;
 - bank service fees;
 - withholding, transfer and other taxes;
 - costs of any outside valuation services and appraisers;
 - costs of research, news and quotation services;
 - legal fees and costs arising in connection with operation of the Funds and their investment activities, including, for example, review and negotiation of transactional documents, legal research and advice, costs in connection with bankruptcies and reorganizations of portfolio companies, and costs of litigation or other actions taken to enforce rights with respect to investments (including an allocated portion of compensation of the General Counsel with respect to legal services provided with respect to such matters);
 - costs of preparing regulatory filings such as Schedules 13D and 13G and Forms 3,4 and 5;
 - other professional fees such as consulting or outside expert or advisory services;
 - fees and expenses of entities in which the Funds have investments, including special purpose vehicles, entities in which the Funds are a control investor, investment funds, and joint ventures;
 - costs in connection with the actual or potential purchase, sale or transmittal of investments, whether or not consummated, including settling trades and other transaction-related closing costs, (including an allocated portion of compensation paid to internal accounting/operations personnel incurred in connection with such activities);
 - travel expenses of SCM personnel incurred in connection with Fund investments or potential investments (such expenses may be incurred by SCM and reimbursed by the Funds on an allocated basis, or reimbursed by entities in which the Funds have an investment); and
 - costs of valuation of Fund assets
- Accounting, auditing and tax preparation expenses for the Funds
 - Including both external professional expenses and an allocated portion of compensation of SCM accounting personnel with respect to services performed for the Funds;
- Legal fees and costs of the Funds, including, for example, with respect to regulatory matters and any litigation or regulatory investigation instituted by or against any Fund, SCM or their affiliates in connection with the affairs of the Funds (including an allocated portion of compensation of the General Counsel with respect to legal services provided with respect to such matters)
- Premiums for liability insurance for the Fund, SCM, Stonehill GP, and their affiliates
- Fees of the independent director (Master and Offshore)
- Fees of Citco Fund Services (Cayman) Ltd. (as administrator for each Fund)

- Costs of maintaining each Fund's registered offices
- Costs of communications with investors
- Offering expenses

The Funds reimburse SCM for legal and accounting services and other services and expenses that are to be borne by the Funds but that have been paid for or provided by SCM. These and certain other expenses may be paid and/or contracted for by SCM and reimbursed by the Funds, sometimes on an allocated basis. SCM ordinarily allocates expenses among the Funds in proportion to their participation in a particular investment, in proportion to their respective net asset values, or in such other manner as SCM determines to be equitable. Currently, SCM caps its reimbursement from Institutional for internal accounting, transaction-related and legal expenses at approximately six one hundredths of one percent (six basis points) of Institutional's average net asset value for the calendar year and does not seek reimbursement from Offshore for those internal expenses. SCM intends to maintain the cap in future years unless it provides advance notice to investors that the cap will be lifted. Based on prior experience, SCM believes that the cap will likely consistently determine the amount of the reimbursement by Institutional.

SCM and/or its affiliates may provide services to entities in which one or both of the Funds has an interest, including serving on boards of directors or as managing member of such entities. When serving on a board of directors or similar oversight entity for which unaffiliated persons receive compensation, SCM and/or its affiliates may receive customary fees or other forms of compensation for such services.

See Item 12 below for more information about brokerage costs incurred by the Funds.

Item 6 Performance-Based Fees and Side-By-Side Management

Stonehill GP receives performance-based special allocations of profits from each of the Funds equal to a percentage of each investor's share of the annual net realized and unrealized appreciation in the net asset value of each Fund in excess of a high-water mark. Performance based compensation arrangements may create an incentive for SCM to recommend investments that may be riskier or more speculative than those that would be recommended under a different fee arrangement. SCM, its Partners and/or one or more of their affiliates may in the future organize, manage, advise or otherwise be involved with other investment funds or accounts with investment objectives, fees and other terms similar to or different from those of the Funds and with other businesses in general. As a result, they may have conflicts of interest in allocating management time, services, functions and investments among the Funds and other business ventures. SCM allocates all investment opportunities among its clients in a manner that it considers equitable to all clients, considering all factors potentially applicable to each client, as discussed further in Item 12 below.

Item 7 Types of Clients

As discussed above, SCM provides investment management and other services to the Funds, which are pooled investment vehicles. Investors in the Funds may include corporations, endowments (including pooled endowments), foundations, individuals, pension plans, pooled investment vehicles, and trusts. The Funds are offered exclusively to persons that are accredited investors and qualified purchasers pursuant to Section 3(c)(7) of the Investment Company Act of 1940 (as amended, the “Company Act”), and are therefore not required to register as investment companies under the Company Act. The current minimum investment in a Fund generally is \$5 million, subject to the discretion of the Funds to accept lesser amounts or require larger amounts.

Item 8 Methods of Analysis, Investment Strategies and Risk of Loss

The investment objective of each Fund is to achieve superior investment returns over time. The types of investments by the Funds will vary over time based on the perception of SCM as to relative opportunities, with an expected concentration at most times in investments in distressed, high yielding, and defaulted debt and related investments and other opportunistic investments, including complex situations where SCM believes that securities trade at an attractive discount or premium to intrinsic value that can be realized through situation-specific catalysts, such as specific economic, legal, political or regulatory events. SCM often will focus on corporate reorganizations, restructurings, industry dislocations, recapitalizations, performing debt trading at a substantial discount to par, reorganized equity securities, exchange offers, liquidations, substantive litigations, sovereign debt, illiquid securities and other special situations where the market may be mispricing an asset’s intrinsic value. The Funds invest across the capital structure of companies in bank debt, bonds, convertible instruments, trade claims, credit default swaps, preferred stock, common stock and structured products. Although the Funds’ investment programs generally are long biased, the also invests short either as a hedge or as a directional investment. The Funds also make investments in industries and markets experiencing significant dislocations, including those caused by cyclical market declines or business troughs, economic crises, market collapse, leverage unwinds and other events. The Funds have broad investment parameters so that SCM can change the investment focus of any Fund if it determines that other investment strategies may be more attractive.

SCM believes that companies experiencing financial or other forms of distress periodically may provide superior investment opportunities because the prices of their securities may be volatile as a result of changing circumstances of importance to investors and pronounced changes in their ownership. These securities are also quite frequently illiquid, which is expected to create opportunities for the Funds when holders of these securities decide to sell. Ownership of these securities may change relatively quickly because certain lenders and investors in those companies who made their lending or investment decisions prior to the occurrence of the cause of the distress may not be interested in holding those investments once those companies become distressed. SCM believes that its Partners’ substantial experience investing in securities and obligations of troubled companies may enable the Funds to take advantage of the changing investment

considerations and volatile trading prices of those securities so as to achieve superior returns over time. Factors that are considered by SCM in making investment decisions with respect to troubled companies may include the following:

- What is the estimated trading value of the company if the source of distress (excess leverage, liquidity problems, operational weakness, lawsuits, regulatory problems, etc.) were removed or diminished?
- What is the likelihood and cost of resolving the distress? Which securities in the capital structure will benefit from resolution? What are the motivations of the parties shaping the process? How and when will the process likely be completed?
- Under various scenarios, what is the risk/reward profile of the investment?

SCM relies on publicly available information from various sources. SCM also may consider confidential information, such as in connection with the potential purchase of bank debt or in a negotiated transaction. When it deems it appropriate, one or more members, employees or affiliates of SCM may seek to serve as an official or unofficial creditor committee member or otherwise accept potentially material non-public information. This kind of involvement in a company's reorganization proceedings and the receipt of material non-public information could result in restrictions on the Funds' ability to buy or sell securities of that company.

The Funds are permitted to invest in the broadest range of securities and instruments, including equity and debt securities, bank debt, trade and other private claims, derivative instruments such as credit default swaps and total return swaps, put and call options, warrants, interests in real estate, government securities and partnership, limited liability and trust interests, and short sales. The Funds invest a substantial amount in securities and instruments that are not publicly traded and/or that trade infrequently or not at all and that may not be transferable. Those securities and instruments may have to be held by the Funds for a substantial period of time before they can be liquidated or otherwise realized. The Funds may invest in any global jurisdiction. The Funds may, for tax, regulatory, or other reasons, use one or more special purpose vehicles to effect a fund investment as SCM may deem appropriate.

While the Funds' investment strategy generally does not employ borrowed funds and is long biased, the Funds, when deemed appropriate by SCM, may utilize leverage and short sales in their investment program. SCM may concentrate a large portion of each Fund's assets in a limited number of securities and other instruments. Based on the principal investment strategy currently contemplated for the Funds, SCM currently anticipates that each Fund typically will invest no more than 20% of its net capital (at the time of investment) in securities and obligations of a single company or other obligor. This approach may produce greater rewards when an investment is successful but greater loss when it is not. As a result, the Funds' performance may fluctuate more than the performance of a fund that invests in a more diversified portfolio.

SCM's investment strategy involves potential risks, including the following:

- Investment, Trading and Market Risks. Investments by the Funds in securities and other instruments and assets involve risk of the loss of capital, particularly for investments in highly leveraged and troubled companies. SCM believes that its research techniques may moderate this risk. However, no guarantee or representation is or can be made that the Funds' investment strategy will be successful and very substantial losses may be incurred. The Funds' investment strategy may utilize investment techniques such as option transactions, margin transactions, swap or other derivative transactions and short sales, which practices could, in certain circumstances, increase the adverse impact of market moves to which the Funds may be subject. The Funds' investments are subject to market risk. For securities sold short, there is market risk that if such securities increase in value, the Funds may decide, and in some circumstances, be forced, to purchase the securities sold short at a cost in excess of the obligation reflected in the statement of assets and liabilities. Global credit and equity markets experienced significant market events during late 2008 and early 2009, including decreasing liquidity, reduced availability and terms of credit, deleveraging and declining market values, resulting in extreme volatility and illiquidity in worldwide capital markets. The recurrence of these or other adverse market conditions and uncertainty could result in substantial declines in the values of the investments held by the Funds.
- Risk of Increase of Assets Under Management. Increases in assets under management, particularly during periods of lesser investment opportunity, may adversely affect investment returns. This is particularly true for investment strategies that are not easily scalable beyond certain levels, such as the principal strategies employed by SCM, and is particularly acute in the event of large increases in assets under management. Because the amount of fees SCM receives is based on the amount of unaffiliated assets under management and the amount of profit allocations affiliates of SCM receive are based on the absolute amount of unaffiliated investor gains irrespective of the rate of return, SCM's compensation arrangements may create an incentive to increase assets under management, which could adversely affect the Funds' performance.
- Risks of Investing in Highly Leveraged and Troubled Companies. The Funds invest in securities and private claims and obligations of domestic and foreign entities that are highly leveraged and/or experiencing significant financial or business difficulties, such as loans, commercial paper, loan participations, claims held by trade or other creditors, partnership, limited liability company and trust interests and similar financial instruments, executory contracts and options or participations therein that are not publicly traded. The Funds may lose all or a substantial portion of their investment in a highly leveraged and/or troubled company or may be required to accept cash or securities with a value less than their cash investment.

Among the risks inherent in investments in troubled entities, in addition to illiquidity, is the fact that it frequently may be difficult to obtain information as to the true condition of those entities. Troubled company investments also may be adversely

affected by state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences and lender liability and by a bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims. The market prices of the securities of troubled companies may be subject to abrupt and erratic market movements and above average price volatility, and the spread between the bid and asked prices of those securities often is greater than normally expected, or there may be no bid or offer at all. The markets for those securities and instruments are often illiquid and the Funds' investment in certain of those securities and instruments may be substantial in relation to the total amount outstanding or recently traded, which could further reduce liquidity. See "Illiquid Investments" below. In certain cases, it may not be practicable to adjust a Fund's investment based on a changed investment perspective.

Troubled company investments often require active monitoring and may, at times, involve participation in bankruptcy or reorganization proceedings by SCM on behalf of the Funds. To the extent that SCM becomes involved in those proceedings, the Funds may have a relatively active participation in the affairs of an issuer. In addition, involvement by SCM in an issuer's reorganization proceedings could result in the imposition of restrictions on a Fund's ability to liquidate its position in that issuer or its ability to acquire additional positions in securities of the issuer or cause potential liabilities related thereto. Such activities by or on behalf of a Fund also could expose a Fund to liabilities that could result in losses greater than the amounts of those investments.

The Funds may invest in bonds or other fixed income instruments, including "higher yielding" (and, therefore, higher risk) debt securities, when SCM believes that those securities offer opportunities for attractive returns. Those securities typically are below "investment grade" and the issuers of those securities may face ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to their inability to make interest and principal payments. The market values of those lower rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher rated securities, which react primarily to fluctuations in the general level of interest rates and tend to be more sensitive to economic conditions than higher rated securities. It is likely that a major economic recession or other adverse developments could severely disrupt the market for those securities and may have an adverse impact on the value of those securities and other securities held by the Funds. In addition, it is likely that any severe economic downturn or capital market weakness could adversely affect the ability of the issuers of those securities to repay the principal of and pay interest on those securities and could increase the incidence and severity of default for those securities.

- Counterparty Risks. The Funds are subject to credit and other counterparty risks to the extent their counterparties may fail to perform pursuant to their agreements with the Funds, including with regard to custodial securities. The Funds enter into loan and other assignment and participation and sub-participation agreements through contractual relationships with third parties. Participations, sub-participations, assignments and syndicated loans are subject to counterparty risk in addition to the

risk of the underlying investment. The value of debt securities and loans will be affected by the ability of the borrower to pay its obligations. Each Fund may also buy and sell securities and other assets and enter into swaps, derivatives and other transactions, including participations in loans, claims and other assets, with various parties (including affiliates) that may expose it to counterparty risk with respect to the other party to the transaction, as well as risks related to additional parties currently or formerly in the chain of ownership of an asset. The settlement risk for such transactions often is greater than for most stocks and bonds and the counterparty risk for such transactions often continues past the settlement date. The Funds enter into contracts that contain a variety of representations and warranties and which provide general indemnifications and may have liability to counterparties thereunder. The Funds' maximum exposure under these arrangements is unknown as this would include future claims that may be made against the Fund that have not yet occurred. However, based on experience, the Funds expect the risk of material loss to be remote. In addition, a Fund could be materially adversely affected if various parties with which it conducts business no longer can or want to do so or if they materially adversely change the terms upon which they conduct business with the Fund.

The Funds regularly transact business with major U.S. financial institutions, including under a prime brokerage agreement with Goldman, Sachs & Co. and affiliates and custody agreements with HSBC Bank USA, National Association and BNY Mellon. The prime broker and custodians and their sub-custodians hold a substantial portion of the Fund's investments and there often are cash balances due from the prime broker. In the normal course of their investment activities, the Funds may be required to pledge collateral, whereby the counterparty, including the prime broker, has the right to sell the pledged securities or retain cash collateral if the Funds are unable to meet their requirements (such as margin requirements) under the applicable agreement. The Funds also have counterparty and similar exposure to other parties, including related parties, typically with regard to private investments, including with regard to payment obligations, representations and covenants that survive closing of the transaction.

- Interest Rate and Capital Markets Risk. Securities, especially fixed income investments, may lose value as a result of changes in market interest rates. Each Fund's investments also may lose value as a result of reductions in the availability of and increases in the cost of credit and other capital.
- Currency Risk. The Funds may invest in securities or maintain cash denominated in currencies other than the U.S. dollar. The Funds are exposed to risk that the exchange rate of the U.S. dollar relative to other currencies may change in a manner which has an adverse effect on the reported value of the Funds' assets and liabilities denominated in currencies other than the U.S. dollar.
- Swaps and Derivatives. The Funds may invest and trade in swaps, "synthetic" or derivative instruments, certain types of options, and other customized financial instruments issued by banks, brokerage firms or other financial institutions, including credit default swaps. A swap is an agreement between a Fund and a financial

intermediary whereby cash payments periodically are exchanged between the parties based upon changes in the price of an underlying asset (such as a debt or equity security, an index of securities, or another asset or group of assets with a readily determinable value). Swaps and other derivatives are subject to the risk of non-performance by the swap counterparty, including risks relating to the financial soundness and creditworthiness of the swap counterparty. Agreements governing swaps and other derivatives generally are governed by agreements that generally favor brokerage firms and other counterparties and often contain terms that SCM may consider to be unfavorable to the Funds, including initial margin requirements and default and close-out terms. The Funds' swaps and other forms of derivative instruments are generally not guaranteed by an exchange or clearing house and are subject to various types of risk, including market risk, liquidity risk, Fund covenant or payment default risk and counterparty credit risk. It may not be possible to dispose of or close out a swap or other derivative position without the consent of the counterparty, and a Fund may not be able to enter into an offsetting contract in order to be able to cover its risk. Swaps also can magnify potential losses that a Fund is exposed to and can require additional collateral to be posted by a Fund on short notice.

- Loan Participations, Loans and other Participations. The Funds invest in loan participations and sub-participations. Investment in loan participations involves certain risks in addition to those associated with direct loans. A loan participant has no contractual relationship with the borrower of the underlying loan. As a result, the participant is generally dependent upon the lender to enforce its rights and obligations under the loan agreement in the event of a default and may not have the right to object to amendments or modifications of the terms of such loan agreement. A participant in a syndicated loan generally does not have voting rights, which are usually retained by the lender. Furthermore, the agent of a syndicated facility and the other lenders may take actions that are different from those preferred by SCM. In addition, a loan participant or a lender under a syndicated facility is subject to the credit risk of the lender as well as the borrower, since a loan participant is dependent upon the lender to pay its percentage of payments of principal and interest received on the underlying loan. The Funds may also invest in participations and sub-participations in various other investments that may carry similar risks relating to the method of investment, including counterparty risk.
- Options. The Funds may invest in, or write, options. The purchaser of a put or call option runs the risk of losing his entire investment in a relatively short period of time if an option expires unexercised. The uncovered writer of a call option is subject to a risk of loss should the price of the underlying security increase, and the uncovered writer of a put option is subject to a risk of loss should the price of the underlying security decrease.
- Limited Diversification and Leverage. The Funds are not restricted in the amount of their capital that they may commit to any single investment or sector of the market, and at times the Funds may hold a relatively large concentration in a particular security or type of investment. A Fund's performance may fluctuate more than the

performance of a fund that invests in a broader range of investments. Losses incurred in those investments could have a material adverse effect on a Fund's overall financial condition. In addition, each Fund may utilize leverage in its investment program. The use of leverage generally would increase the adverse impact of a decline in the value of a Fund's investment portfolio. There are no restrictions on the amount of leverage that SCM may cause a Fund to employ.

- Foreign Investments. The Funds may invest in U.S. and non-U.S. securities and instruments denominated in non-U.S. currencies and/or traded outside of the United States. These investments involve certain risks not typically associated with investing in United States securities or property. Those risks may include unfavorable currency exchange rate developments, poor legal protections for investments, restrictions on repatriation of investment income and capital, imposition of exchange control regulation by the United States or foreign governments, United States and confiscatory foreign taxation, and economic or political instability in foreign nations. In addition, there may be less publicly available information about certain non-U.S. companies than would be the case for comparable companies in the United States, and certain non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those applicable to U.S. companies.
- Illiquid Investments. The Funds invest in illiquid securities and other investments, including privately negotiated investments (including private equity investments), loans, claims against insolvent companies, securities that are not registered under applicable securities laws, securities that are not traded on a quoted market, and securities that are subject to other substantial restrictions or prohibitions on transfer, or that may require a substantial period of time before they become liquid or are otherwise realized. There may be no or limited markets for these investments and realization of these types of investments may depend on events outside the control or influence of SCM and may require a lengthy holding or marketing period. SCM believes that higher expected returns often can be obtained by investing in less liquid instruments, which may result in significant returns to the Funds, but that involve a substantial degree of risk. The Funds may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of those investments. In addition, the Funds' investments in illiquid securities and other assets may be substantial in relation to the total amount of such securities outstanding or traded in a reasonable time period, which may further reduce the liquidity of these investments. The Funds may not be able to sell or adjust the size of their illiquid positions at a reasonable price, particularly if the Funds seek to dispose of an illiquid investment at a time of poor market conditions, or at another inopportune time. Realization of certain investments may depend on natural realization events or a lengthy marketing period. Pressures to sell illiquid securities and other assets likely would adversely affect valuations and the values obtained on sale, potentially substantially.

If significant withdrawals or redemptions are requested by investors in any Fund, SCM may be unable to liquidate the Fund's investments at the time those withdrawals

or redemptions are requested or may be able to do so only at prices that SCM believes do not reflect the true values of those investments and would adversely affect the applicable Fund's investors. Any securities and instruments distributed may not be readily marketable or saleable and may have to be held for an indefinite period of time. Valuation of many of the Funds' illiquid and less liquid investments inherently requires substantial judgment by SCM.

- Political Risk. The Funds are exposed to political risk with respect to their investments and operations. Governments could impose restrictions, regulations or other measures, and take various actions which may have a material adverse impact on the Funds. SCM will attempt to assess all of the above risk factors, and others, in determining the positions it will take and the prices it is willing to pay for those positions. However, the analysis of SCM may be faulty, and even if generally accurate, anticipated or unanticipated risks may cause losses.
- Valuation. To the extent that a Fund invests in securities or instruments for which active market quotations are not readily available, the valuation of those securities and instruments will be determined for the Fund in good faith by SCM (often based on indicative bids provided by brokers), whose determination will be final and conclusive for all parties. It is anticipated that a substantial portion of each Fund's investments will often be in securities or instruments for which active market quotations are not readily available. The valuation of those assets will affect the determination of the unrealized appreciation of the Funds' assets and the amounts of the fees payable to SCM and allocations payable to its affiliates.

For securities traded on a national market, values generally are determined as of the last reported sale price on the valuation date. For certain other securities, values are based on indicative "bid" levels (or "ask" levels if held short) provided by brokers, although some of these securities are not actively traded or even regularly quoted. The value of securities for which a Fund is subject to a trading restriction may be discounted from the previously described values as determined by SCM when it believes a discount is appropriate. These valuations may be modified by SCM if and to the extent that it determines that such modifications are advisable in order to more accurately reflect market and liquidity conditions and other factors affecting the value of assets, and the differences could be material.

Investments in certain securities for which no quoted or indicative prices are available from brokers are valued as determined by SCM (including with any modifications that may be advisable or required in accordance with U.S. generally accepted accounting principles ("GAAP"). These investments generally are carried at cost until SCM believes that a change in that valuation is appropriate. In certain cases where quotes and trades are infrequent, the valuation may be based on older quotes, trading or other market information until SCM believes that a change in valuation methodology is appropriate. Estimated values may differ significantly from the values that would have been used had a ready market for these securities existed, and the differences could be material.

Since the Funds regularly invest in highly illiquid instruments, valuation of many of the Funds' investments inherently requires substantial judgment by SCM; moreover, Fund valuation issues pose a conflict of interest for SCM and its affiliates since the compensation payable to SCM is based on the Funds' reported performance and net asset values.

Item 9 Disciplinary Information

Neither SCM nor its principals have been the subject of any material legal proceeding required to be disclosed in response to this item.

Item 10 Other Financial Industry Activities and Affiliations

None of SCM, its Partners, affiliates, or its employees is registered as a broker-dealer or a registered representative of a broker-dealer, a registered futures commission merchant, commodity pool operator or commodity trading advisor, and none are affiliated with any broker-dealer, bank or other financial services firm. Stonehill GP, an affiliate of SCM, is the general partner of Institutional.

Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code of Ethics

SCM has adopted a Code of Ethics under Rule 204A-1 of the Investment Advisers Act of 1940, as amended (the "Advisers Act"). SCM's Code of Ethics requires SCM and its Partners and employees to act in accordance with their fiduciary duties to SCM's clients by putting the interests of SCM's clients before their own personal interests and acting honestly and fairly in all respects in dealing with clients. The Code of Ethics imposes restrictions on the use by supervised persons of SCM of non-public information regarding SCM or the Funds, including information regarding the Funds' investments and trading strategies and the identity of and information relating to any investor in a Fund. The Code of Ethics also establishes policies and procedures with respect to personal securities transactions by supervised persons. These procedures require supervised persons to provide quarterly transaction reports and an annual report of securities holdings, to seek pre-approval for transactions in certain types of securities, and to comply with certain trading restrictions. SCM's Chief Compliance Officer receives such reports and monitors supervised persons' compliance with the Code of Ethics. SCM will provide to any client or prospective client at no cost a copy of the Code of Ethics. Clients wishing to receive this information should contact SCM.

Participation or Interest in Client Transactions

SCM may, on occasion, cause a Fund to buy securities from, or sell securities to, another Fund at current market prices, including a Fund in which SCM, its principals or employees are investors or in which such persons may have a financial interest, either directly or indirectly due to SCM's and/or Stonehill GP's right to receive a performance

fee or allocation. Where required by applicable law, any such transaction will be approved in advance by the client in accordance with Section 206(3) of the Advisers Act.

Each Fund may engage in certain other transactions or arrangements with any other Fund, including transactions or arrangements where (i) joint liability may exist, (ii) one Fund may have counterparty risk to another Fund under a participation or assignment, or (iii) the liquidity needs of one Fund could affect the market prices of securities or other also held by the other Fund. SCM will not have any obligation to engage in any transaction or make any investment for a Fund's account or to recommend any transaction to a Fund that SCM, its Partners or their affiliates may engage in for their own accounts or the accounts of any other clients. SCM and its Partners and their affiliates are not required to refrain from any other activity nor disgorge any profits from any such activity, including acting as general partner or managing agent for funds with objectives similar to those of the Funds. SCM devotes such time and effort to the Funds and their affairs as it deems necessary and appropriate.

SCM does not purchase securities for its own account. On occasion, SCM's Partners and employees may buy and sell securities for themselves that SCM also recommends to one of the Funds. The Code of Ethics contains policies and procedures designed to prevent improper practices with respect to such transactions. Subject to limited exceptions, the Partners and employees of SCM are not permitted to execute a personal securities transaction without the prior approval of the CCO. Any transaction by any SCM principal or employee in a security or other investment in which a Fund or other client of SCM has any interest would require prior approval by the CCO.

Item 12 Brokerage Practices

Selection of Brokers, Research, and Use of Soft Dollars

In selecting brokers to effect portfolio transactions for the Fund, SCM will consider such factors as price, the ability of the brokers to effect the transactions, research services provided by the brokers, and the provision or payment (or the rebate to the Funds for payment) of the costs of services (including prime brokerage services, custodial services, brokerage services and research services as described below). Accordingly, if SCM determines in good faith that the amount of commissions charged by a broker is reasonable in relation to the value of the brokerage and other products or services provided by that broker, the Funds may pay commissions to that broker in an amount greater than the amount another broker might charge. The services received from brokers may be used by SCM in servicing other accounts and not all such services and information may be used in connection with the Funds. Nonetheless, SCM believes that its relationship with brokers and the products and services they provide provides the Funds with benefits by supplementing the services and research otherwise available to the Funds. Certain of these products and services may be useful to other clients of SCM or its affiliates.

Section 28(e) of the Securities Exchange Act of 1934 (the "Exchange Act") provides a safe harbor that permits advisers, when selecting brokers to execute

transactions for client accounts, to take into account certain research products and services provided to the adviser by brokers. SCM does not expect to receive any benefits outside the safe harbor under Section 28(e). Research and related services furnished by brokers may include written or oral information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; statistics and pricing services; discussions with research, trading or sales personnel; data bases; fees for attendance at industry conferences; and other news, technical and telecommunications services utilized in the investment management and execution process.

SCM and its affiliates may have other business arrangements unrelated to the Funds with brokers and dealers used to execute transactions for the Funds. Brokerage firms and their affiliates may invest in the Funds and may provide financing or other services to the Funds, SCM or other accounts managed by SCM. SCM may also use a broker-dealer that has referred investors to SCM to execute or clear transactions on behalf of the Funds or as counterparty to transactions for the Funds. Brokerage firms and their employees may offer gifts to employees of SCM and may invite employees of SCM to entertainment and social events. It is SCM's policy that factors such as gifts and entertainment that do not benefit client accounts should not be considered when selecting brokers and counterparties to execute transactions for the Funds.

Trade Allocation and Aggregation

When SCM determines that participation in specific investment opportunities is appropriate for both Funds, SCM will ordinarily attempt to allocate participation in each opportunity on an equitable basis, taking into account such factors as the relative amounts of capital available to each Fund for new investments, the investment strategies and portfolio positions of each Fund, prior allocation decisions, administrative considerations, and applicable tax and regulatory considerations. The factors considered by SCM may vary from time to time. SCM is authorized to combine purchase or sale orders on behalf of one Fund with orders for the other Fund and allocate the securities or other assets so purchased or sold, on an equitable basis, between them. If securities are purchased at different prices during the day, or if all orders for the same security have the same limit, or if all transactions satisfy the most restrictive limit, then the participating accounts may be charged the average price for those transactions.

Item 13 Review of Accounts

All client accounts are reviewed on a daily basis by or under the supervision of SCM's Chief Financial Officer. The daily review includes a reconciliation of cash balances and trade activity. Audited annual financial reports of the Funds are prepared and made available to investors annually. In addition, investors generally will receive monthly performance statements and a quarterly letter and FAQ that includes certain additional information.

Item 14 Client Referrals and Other Compensation

SCM does not engage or compensate third parties to refer prospective clients or investors in the Funds.

Item 15 Custody

SCM and/or Stonehill GP may be deemed to have custody of the assets of certain of the Funds as a result of its authority over the Funds. SCM does not have physical custody of client assets (except with respect to certain privately offered securities that are not required to be held by a custodian). Client assets are held by a qualified custodian to the extent required pursuant to Rule 206(4)-2 under the Advisers Act. It is SCM's policy to cause the financial statements of each Fund to be audited annually and to distribute audited financial statements, prepared in accordance with GAAP, to investors no later than 120 days after the end of each fiscal year.

Item 16 Investment Discretion

SCM has broad, discretionary investment authority with respect to its management of the portfolios of the Funds. SCM is not bound by any specific restrictions on investing in particular securities or types of securities. Unless otherwise agreed to between SCM and any client, SCM will not ordinarily be responsible for losses in client accounts, whether caused by the actions of SCM or unrelated third parties, unless caused by the gross negligence, fraud or willful misconduct of SCM. Accordingly, SCM will not ordinarily be responsible for the consequences of ordinary trade errors, unless caused by the gross negligence, fraud or willful misconduct of SCM.

Item 17 Voting Client Securities

SCM has adopted policies and procedures designed to ensure that SCM complies with the requirements of Rule 206(4)-6 and Rule 204-2(c)(2) under the Advisers Act, and that reflect SCM's commitment to vote all client securities for which it exercises voting authority in a manner consistent with the best interest of the client. SCM maintains records of its proxy voting in accordance with its proxy voting procedures and the Advisers Act. SCM votes all client proxies consistent with the general guidelines that SCM has adopted and that SCM believes reflect the best interests of its clients, after taking into consideration all relevant facts and circumstances at the time of the vote. SCM will provide to any client at no cost a copy of its voting policies and procedures and information regarding how such client's proxies have been voted in the past. Clients wishing to receive this information should contact SCM.

Any potential conflict of interest that could affect SCM's vote of a proxy must be brought to the attention of and discussed with the CCO. Depending on the circumstances, the CCO, working with relevant investment personnel, may determine to mitigate the conflict by abstaining, appointing an independent third party to vote the proxy, or disclosing the conflict to the affected client(s) and giving such client(s) the opportunity to vote the proxy.

Item 18 Financial Information

SCM is not required to make any disclosure in response to this item.

Item 19 Requirements for State-Registered Advisers

SCM is not required to make any disclosure in response to this item.