

**Item 1. Cover Page.**

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**Part 2A of Form ADV: Firm Brochure**

**New China Capital Management, LP**

**March 29, 2019**

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This brochure (this “**Brochure**”) provides information about the qualifications and business practices of New China Capital Management, LP. If you have any questions about the contents of this Brochure, please contact us at (203) 328-1800. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “**SEC**”) or by any state securities authority.

Additional information about New China Capital Management, LP is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

New China Capital Management, LP is registered with the SEC as an investment adviser. New China Capital Management, LP’s registration as an investment adviser does not imply any level of skill or training.

**Item 2. Material Changes.**

This update of Form ADV Part 2A for New China Capital Management, LP does not contain any material changes.

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#### Item 4. Advisory Business.

New China Capital Management, LP (“**NCCM**”) and New China Capital Management Corp. (“**NCCM Corp.**” and together with NCCM, the “**Advisers**”) provide investment advice to private equity funds. NCCM is directly and indirectly 50% owned by each of Paul S. Wolansky and S. Donald Sussman. Paul S. Wolansky holds his interest in NCCM directly and through NCCM, LLC, which he wholly owns. S. Donald Sussman holds his interest in NCCM through Paloma Partners Advisors LP (“**Paloma Advisors**”), an entity of which he is the beneficial owner, and TAM China, LLC, which he wholly owns. NCCM, LLC and TAM China, LLC are the general partners of NCCM. NCCM Corp. is directly 50% owned by each of Paul S. Wolansky and S. Donald Sussman. NCCM and NCCM Corp. are each registered with the SEC as investment advisers under the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”). NCCM has filed a single Form ADV with the SEC as a “filing adviser” that includes NCCM Corp. as a “relying adviser” in reliance on the position of the SEC expressed in the no-action letter issued to the American Bar Association, Business Law Section, dated January 18, 2012.

NCCM was originally formed as a Delaware limited liability company in 2003 but converted to a Delaware limited partnership in 2008. NCCM Corp. was formed as a Delaware corporation in 2013. The Advisers, their affiliates and their predecessors have, since 1992, implemented a core strategy of providing growth capital to middle-market companies in the fast-growing private sector of the Chinese economy, with primary focus on companies with a proven track record of profitability.

NCCM acts as the investment adviser to Cathay Capital Holdings, L.P. (“**CCH**”) and Cathay Capital Holdings II, L.P. (“**CCH II**”). NCCM Corp. acts as the investment adviser to Cathay Capital Holdings III, L.P. (“**CCH III**” and together with CCH and CCH II, the “**Cathay Funds**”). NCCM indirectly provides investment advisory services to Cathay Capital Holdings Corp. Ltd., which invests substantially all of its assets in CCH, and Cathay Capital Holdings II Corp. Ltd., which invests substantially all of its assets in CCH II. NCCM Corp. indirectly provides investment advisory services to Cathay Capital Holdings III Corp. Ltd. (together with Cathay Capital Holdings Corp. Ltd. and Cathay Capital Holdings II Corp. Ltd., the “**Overseas Funds**”), which invests substantially all of its assets in CCH III. The Cathay Funds are pooled investment vehicles that are not registered under the Investment Company Act of 1940, as amended (the “**ICA**”), and whose securities are not registered under the Securities Act of 1933, as amended (the “**Securities Act**”). The investors in the Cathay Funds are primarily “qualified purchasers” as defined in the ICA. Investors in the Overseas Funds must be “accredited investors” as defined under Regulation D under the Securities Act, “qualified purchasers” as defined in the ICA and “qualified eligible persons” as defined in regulations promulgated by the U.S. Commodities Futures Trading Commission.

As the investment adviser of each of CCH and CCH II, NCCM, along with Cathay Master GP, Ltd., the general partner of each of CCH and CCH II (“**Cathay Master GP**”), selects and disposes of investments of each of CCH and CCH II. As the investment adviser of CCH III, NCCM Corp., along with Cathay Capital III Master GP, Ltd., the general partner of CCH III (“**Cathay Capital III Master GP**”), selects and disposes of investments of CCH III. Each of

Cathay Master GP and Cathay Capital III Master GP are referred to herein individually as a “**General Partner**” and collectively as the “**General Partners**”. In making decisions for or on behalf of the Cathay Funds, including with respect to the nature or structuring of investments, the General Partners and the Advisers consider the interests of each of the Cathay Funds, as applicable, and not the particular interest of investors individually. Thus, any such decision may be more or less beneficial for one investor than for another investor, in respect of their individual tax situations, investment objectives or otherwise.

The Advisers provide investment advisory services to the Cathay Funds pursuant to investment management agreements (each, an “**Investment Management Agreement**”). The terms of the investment advisory services provided by NCCM or NCCM Corp., as applicable, to a Cathay Fund, including specific investment guidelines and restrictions, are set forth in each Cathay Fund’s Investment Management Agreement, offering documents and/or governing documents. Such investment guidelines and restrictions limit the focus of each Adviser’s investment advisory activity primarily to the development of a portfolio of direct and other investments in companies operating in or affected by economic activity in the People’s Republic of China (the “**PRC**”) and securities reasonably related to such investments. Investors in the Cathay Funds cannot impose any additional investment guidelines or restrictions on the Cathay Funds.

As of December 31, 2018, NCCM manages a total of approximately \$234,869 of client assets on a discretionary basis. As of December 31, 2017 NCCM Corp. manages a total of approximately \$309,436 of client assets on a discretionary basis. The Advisers do not manage client assets on a non-discretionary basis.

## **Item 5. Fees and Compensation.**

A. As compensation for investment advisory services, NCCM receives from CCH and CCH II, and NCCM Corp. receives from CCH III, during a specified investment commitment period, a semi-annual management fee payable less than six months in advance (the “**Management Fee**”), generally equal to 1% (2% per annum) of the aggregate investments committed to such Cathay Fund. After the expiration of the relevant investment commitment period, the Management Fee is generally equal to 1% (2% per annum) of aggregate capital contributions in respect of outstanding portfolio investments. The applicable General Partner may, in its sole and absolute discretion, reduce, waive or calculate differently all or a part of the Management Fee with respect to any investor in the relevant Cathay Fund, including any investors that are affiliates or employees of the Advisers, members of the immediate families of such persons and trusts or other entities for their benefit.

B. The Management Fee is billed to each of CCH, CCH II and CCH III.

C. Each Cathay Fund typically bears all of the expenses relating to such Cathay Fund’s activities (to the extent not reimbursed by a portfolio company), including, without limitation:

- legal, accounting, consulting, audit and tax preparation expenses (including costs of reports to investors, financial statements, tax returns and K-1s);

- expenses related to the advisory board of such Cathay Fund;
- fees of the administrator;
- investment expenses (*i.e.*, expenses which are related to the acquisition, holding, monitoring, supervision and disposition of such Cathay Fund's proposed or actual portfolio investments);
- third party and out-of-pocket expenses in connection with transactions not consummated;
- all expenses of liquidating such Cathay Fund;
- premiums for insurance for protecting such Cathay Fund, the applicable General Partner and applicable Adviser, and any of their respective affiliates;
- expenses related to organizing companies through or in which portfolio investments will be made;
- extraordinary expenses (such as litigation);
- taxes or other governmental or regulatory charges payable by such Cathay Fund;
- certain indemnity obligations of such Cathay Fund to the applicable General Partner; and
- certain expenses incurred in connection with defaulting investors.

As specified in CCH and CCH II's offering documents and/or governing documents, certain additional expenses of NCCM, Cathay Master GP or their respective affiliates in connection with services provided to such Cathay Fund may also be borne by such Cathay Fund in an amount per annum not to exceed one-half of one percent (0.5%) of the aggregate investments committed to such Cathay Fund during its investment commitment period, and thereafter, of the aggregate capital contributions in respect of outstanding portfolio investments.

Brokerage fees and other transaction expenses that are incurred by the Cathay Funds are disclosed in the offering documents and/or governing documents of the Cathay Funds under the caption "Transaction Costs" and are also discussed in Item 12 – Brokerage Practices below.

To the extent the Advisers, the General Partners or their respective affiliates pay any of the expenses outlined in this Item 5.C. on behalf of the Cathay Funds, the relevant Cathay Fund is or will be required to reimburse such Adviser, such General Partner or such affiliate, as the case may be, upon request. These expense reimbursements are in addition to the advisory fees described in Item 4 – Advisory Business and are disclosed to investors in the relevant offering documents and/or governing documents.

D. Pursuant to each Investment Management Agreement of CCH and CCH II, any payment of the Management Fee for a period less than six months is reduced on a *pro rata* basis according to the actual number of days during the period, and the excess is refunded by NCCM to the applicable Cathay Fund. Pursuant to the Investment Management Agreement of CCH III, any payment of the Management Fee for a period of less than six months is reduced on a *pro rata* basis according to the actual number of days during the period, and the excess is refunded by NCCM Corp. to CCH III.

E. Other than as stated above, neither the Advisers nor any of their supervised persons accepts or otherwise receives directly or indirectly any compensation for the sale of securities or other investment products.

#### **Item 6. Performance Based Fees and Side-by-Side Management.**

Cathay Master GP and Cathay Capital III Master GP each receive a “carried interest” allocation equal, in the aggregate, to 20% of the cumulative realized net profits on the interests of each investor in the applicable Cathay Fund, subject to certain hurdles, which carried interest is distributed to such General Partner upon the realization of specific investments of such Cathay Fund. Upon termination of a Cathay Fund, if the amount of the carried interest previously distributed to its General Partner in respect of any investor in such Cathay Fund exceeds 20% of the cumulative net profits on such investor’s interests in all investments of such Cathay Fund in which such investor had an interest, then such General Partner will return to such Cathay Fund such excess, less income taxes attributable thereto.

Performance-based compensation may in certain instances encourage portfolio managers to overvalue assets in order to increase the amount of that performance-based compensation. In the case of the Cathay Funds, the carried interest received by the General Partners is or will be payable only after a specific investment is realized. Neither Cathay Master GP nor Cathay Capital III Master GP receives an incentive allocation based on valuations that it makes. However, the General Partners’ incentive allocation arrangement may create an incentive for the Advisers to make investments that are riskier or more speculative than would be the case if such an arrangement were not in effect.

#### **Item 7. Types of Clients.**

As described in Item 4 – Advisory Business above, NCCM provides investment advisory and management services to CCH and CCH II, and NCCM Corp. provides investment advisory and management services to CCH III.

The minimum capital commitment to each of CCH and CCH II is \$10 million, subject to the sole and absolute discretion of Cathay Master GP. The minimum capital commitment to CCH III is \$5 million, subject to the sole and absolute discretion of Cathay Capital III Master GP. The board of directors of each Overseas Fund may authorize the acceptance of commitments in such Overseas Fund from investors for any amount.

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

Below is a summary of methods of analysis and investment strategies employed by the Advisers and the material risks associated therewith.

The offering documents and/or governing documents of each Cathay Fund include additional information on these risks and should be reviewed by any participating investor. An investment in a Cathay Fund involves a degree of risk. There can be no assurance that the investment objectives of any Cathay Fund will be achieved, or that investment in any Cathay Fund will receive a return of capital. Investors in any Cathay Fund should be prepared to bear the loss of their investment.

### **Methods of Analysis and Investment Strategies.**

The Advisers believe that certain “mature” industries elsewhere in the world are still growth industries in the PRC. These include, but are not limited to, consumer products, financial services, media and advertising, distribution and basic manufacturing. Given the high growth rate of these industries in the PRC, the Advisers believe that they generally provide better investment opportunities (on a “risk/reward” basis) than investment in “high-tech” or “new-age” companies with unproved technology and business models. At the same time, the Advisers and their affiliates will seek out profitable and proven businesses and management as opposed to start-ups or “concept plays.” Many of the growth companies that the Advisers and their affiliates evaluate for investment have earnings of \$5 to \$10 million (and some considerably more) before the new investment.

The Advisers generally advise the Cathay Funds to take minority interests in portfolio companies (with appropriate veto controls and safeguards), but may deem it beneficial to take control positions in certain circumstances. As part of the investment agreements, however, the Cathay Funds will generally obtain “negative control” through such mechanisms as veto rights on corporate actions, major business decisions and connected transactions, and, in certain cases, cash account controls.

Over time, the universe of exit opportunities available to financial investors in the PRC has expanded dramatically. The Advisers expect that the most likely exits for the Cathay Funds’ investments are (1) IPOs on the Hong Kong Stock Exchange, NASDAQ, London’s AIM or other overseas exchanges, (2) trade sales to international industrial companies looking to enter or expand operations in the PRC, (3) trade sales to Chinese industrial companies looking to expand their product lines or market share, (4) IPOs on the Chinese domestic market or (5) sales to larger overseas or Chinese private equity funds. Over the course of their 20 years of experience in the PRC, the Advisers have achieved exits in the first four of the five categories listed above.

Each potential investment project is subjected to evaluation and due diligence. The Advisers are presented with a very large number of potential projects each year. The evaluation process helps the Advisers to narrow down the potential projects, so that staff resources are concentrated on the projects which show the most promise. The Advisers and their affiliates pursue a due diligence process prior to each investment by a Cathay Fund. This due diligence process generally



includes, among other things, analysis of both the company's operations and the competitive market, interviews with management, customers and industry experts, and financial and legal due diligence. The Advisers and their affiliates spend considerable time studying local legal and regulatory issues. The due diligence process will vary, however, from investment to investment as deemed appropriate by the applicable General Partner.

Most investments advised by the Advisers are made in companies which are not publicly traded at the time of investment; however, some investments are in securities of certain listed companies, some of which lack significant liquidity. In advising the Cathay Funds, the Advisers implement the following investment strategies:

***Focus on the Private Sector of the Chinese Economy.*** The Advisers generally target companies in the private as opposed to state-owned sector of the economy. This is the fastest growing segment of the Chinese economy and, given the inefficiencies in the Chinese system of capital allocation, presents very attractive opportunities for private equity investments, which often consist of providing working capital in return for private equity returns.

***Focus on Proven Industries, Products and Services.*** The Advisers generally target companies in industries whose potential has been already proved elsewhere in the world, which the Advisers believe provide better opportunities (on a "risk/reward" basis) than an investment in "high-tech" and "new-age" industries where technology, market and execution risks are high.

***Focus on Established, Profitable and Well Managed Companies.*** The Advisers generally target companies with a record of profitability, a strong management team and the willingness to adopt appropriate corporate governance procedures. By investing in established but growth stage companies, as opposed to early-stage or "concept plays," The Advisers believe that they will be able to reduce the execution and market risks associated with early-stage investments.

***Focus on the Domestic Market.*** The Advisers generally target companies that seek to take advantage of the development of the domestic markets rather than export markets. The PRC's cost advantage in manufacturing has been diminishing and, the Advisers believe, will continue to diminish over time as labor, energy and land costs continue to rise. At the same time, the Advisers believe that the domestic economy will continue to grow along with the consumer base.

***Focus on Building Partnerships with Portfolio Companies.*** The Advisers generally use their role as both investors and advisers to enable them to build a true partnership with their portfolio companies. This in turn will allow the Advisers not only to monitor better the progress of the company in fulfilling its development plan, but also to influence that progress and provide assistance where necessary.

### **Certain Risk Factors.**

The methods of analysis and investment strategies described above involve a substantial degree of risk, and a Cathay Fund may lose all or a substantial portion of the value of its investment. Material risks relating to the investment strategies and methods of analysis described above include

the following, each of which is described in more detail in the applicable Cathay Fund's offering document.

***Nature of Investment.*** An investment in a Cathay Fund requires a long-term commitment, with no certainty of return. There is likely to be little or no near-term cash flow available to the investors. Many of the Cathay Funds' investments will be highly illiquid, and it is expected that the investors will achieve liquidity on their investments only when they receive interim distributions and upon termination of a Cathay Fund. Moreover, there can be no assurance that the Cathay Funds will be able to realize on such investments in a timely manner. Dispositions on such investments may require a lengthy time period or may result in a distribution in kind to the investors.

***Dependence on Key Personnel.*** The success of the Cathay Funds will depend in large part upon the ability of the Cathay Funds' investment team (including the Advisers) to develop and implement investment strategies that achieve each Cathay Fund's investment objective. If any of such key personnel were to become unable to participate in the management of the Cathay Funds, the consequences to the Cathay Funds could be material and adverse. For example, if such an event occurred, the performance of the Cathay Funds could be materially adversely impacted or the Cathay Funds could be prematurely terminated.

***Limited Liquidity.*** An investment in a Cathay Fund provides limited liquidity. Interests in the Cathay Funds are not registered under the Securities Act or any other securities laws and, therefore, cannot be resold unless they are subsequently registered under such laws or registration thereunder is not required pursuant to an exemption from registration or otherwise. Interests are also subject to substantial restrictions on transferability under the relevant fund documents. There is no market for any interests in the Cathay Funds and none is expected to develop. Also, an investor generally may not elect to withdraw all or any part of its capital account during a specified period, and investors may not be able to liquidate their investments prior to the end of such period.

***Availability of Suitable Investments.*** Investors must rely on the applicable Adviser's ability to identify, structure, and implement investments consistent with the Cathay Funds' investment program. While the applicable General Partner may believe that suitable investment opportunities of the type in which the Cathay Funds intend to invest are currently available, there can be no assurance that such investment opportunities will continue to be available for the Cathay Funds' investment activities, that there will be a sufficient number of such investment opportunities to enable the Cathay Funds to invest all committed amounts, or that such investment opportunities will satisfy the Cathay Funds' investment criteria or lead to completed investments by the Cathay Funds.

***Unspecified Use of Proceeds.*** As of the date of investments by investors, each Cathay Fund may not have selected the investments that it will make. Purchasers of interests in a Cathay Fund will not have an opportunity to evaluate for themselves the relevant economic, financial and other information regarding the investments to be made by the Cathay Funds and, accordingly, will be dependent upon the judgment and ability of the applicable General Partner and Adviser in investing and managing the capital of the Cathay Funds. No assurance can be given that the

Cathay Funds will be successful in obtaining suitable investments, or that if such investments are made, the investment objectives of the Cathay Funds will be achieved.

***Minority Investments.*** The Cathay Funds may make minority investments in portfolio companies where the Cathay Funds may not have the right to appoint a director or otherwise be able to control or influence effectively the business or affairs of such entities. The entity in which a Cathay Fund's investment is made may have economic or business goals that are inconsistent with those of such Cathay Fund, and such Cathay Fund may not be in a position to limit or otherwise protect the value of its investment in the portfolio company. In addition, although such Cathay Fund may seek board representation in connection with its investments, there is no assurance that such representation, if sought, will be obtained. In all such cases, such Cathay Fund will rely significantly on the existing management and boards of directors of portfolio companies, which may include representatives of investors with whom such Cathay Fund is not affiliated and whose interests may conflict with the interests of such Cathay Fund.

***Exit Difficulties.*** The Cathay Funds' investments will be subject to various risks, particularly the risk that the Cathay Funds will be unable to realize their respective investment objectives by sale or other disposition at attractive prices or be unable to complete any exit strategy. Dispositions of investments may be subject to contractual and other limitations on transfer or other restrictions that would interfere with subsequent sales of such investments or adversely affect the terms that could be obtained upon any dissolution thereof. There can be no assurance that a public market will develop for any of the Cathay Funds' investments or that the Cathay Funds will be able to realize such investments. Although these securities may be resold in privately negotiated transactions, the prices on these sales could be less than the investment's cost basis. Further, companies whose securities are not publicly traded will generally not be subject to public disclosure and other investor protection requirements applicable to publicly traded securities. Therefore, there can be no assurance that the Cathay Funds will realize net profits or achieve returns commensurate with the risks associated with their respective investments, or that the Cathay Funds will not experience losses in their investments, which may be substantial.

***Risks Upon Disposition of Investments.*** In connection with the disposition of an investment in a portfolio company, the Cathay Funds may be required to make representations about the business and financial affairs of such portfolio company typical of those made in connection with the sale of any business, or may be responsible for the contents of disclosure documents under applicable securities laws. The Cathay Funds may also be required to indemnify the purchasers of such investment or underwriters to the extent that any such representations or disclosure documents turn out to be incorrect, inaccurate or misleading. These arrangements may result in contingent liabilities, which may ultimately have to be funded by the investors to the extent of their investments or to the extent that the investors have received prior distributions from the relevant Cathay Fund.

***Risks Arising from Provision of Managerial Assistance.*** Each Cathay Fund on occasion may obtain contractual rights to participate substantially in and to influence substantially the conduct of the management of its portfolio companies. In such instances, such Cathay Fund typically will designate directors to serve on the boards of directors of portfolio companies. The designation of representatives, observers, directors and other measures contemplated could expose the assets of

such Cathay Fund to claims by a portfolio company, its security holders, creditors and regulators, including the claims that such Cathay Fund is a controlling person and thus is liable for securities laws violations of a portfolio company. These measures could also result in certain liabilities in the event of the bankruptcy or reorganization of a portfolio company; could result in claims against such Cathay Fund if the designated directors violate their fiduciary or other duties to a portfolio company or fail to exercise appropriate levels of care under applicable corporate or securities laws, environmental laws or other legal or regulatory principles or regimes; and could expose such Cathay Fund to claims that it has interfered in management to the detriment of a portfolio company. While the General Partners and Advisers intend to manage the Cathay Funds in a way that will minimize the Cathay Funds' exposure to these risks, the possibility of successful claims cannot be precluded.

***Risk of Portfolio Companies.*** Certain of the Cathay Funds' investments may be in portfolio companies with little or no operating history, unproven technology, untested management, and unknown future capital requirements. These companies may face intense competition, often from established and more experienced companies with greater financial and technical resources, more marketing and service capabilities, and greater number of qualified personnel.

Of that portion of each Cathay Fund's portfolio that will consist of liquid securities, it is expected that all or a portion of those holdings may be in the stocks of micro- or small- to medium-sized companies rather than larger, "blue chip" companies. While such investments might provide significant potential for appreciation, such stocks, particularly micro- and smaller-capitalization stocks, involve higher risks than do investments in stocks of larger companies. For example, prices of small-capitalization and even medium-capitalization stocks are often more volatile than prices of large-capitalization stocks and the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) is higher than for larger, "blue-chip" companies. In addition, due to thin trading in some micro- and small-capitalization stocks, an investment in those stocks may be illiquid.

***Absence of Regulatory Oversight Applicable to Registered Investment Companies.*** While each Cathay Fund may be considered similar to an investment company, it is not required and does not intend to register as such under the Investment Company Act (in reliance upon an exemption available to privately offered investment companies), and, accordingly, the provisions of the Investment Company Act (which may provide certain regulatory safeguards to investors) are not applicable. Such safeguards require, among other things, investment companies to have a majority of disinterested directors and that securities be held in custody and be individually segregated from the securities of any other person and clearly marked to identify such securities as the property of such investment company. Moreover, while each Cathay Fund may trade futures contracts, each General Partner is exempt from registration with the Commodities Futures Trading Commission as a commodity pool operator.

***Allocation Arrangements with the General Partner and the Investment Manager.*** The incentive allocation arrangement described in Item 6 – Performance Based Fees and Side-by-Side Management above may create an incentive for NCCM, an affiliate of Cathay Master GP, and NCCM Corp., an affiliate of Cathay Capital III Master GP, to make investments that are riskier or more speculative than would be the case if such arrangements were not in effect.

***Concentration of Investments.*** Although it is the policy of each Cathay Fund to invest no more than 20% of its total investments in any single portfolio company, such Cathay Fund may at times hold relatively few investments (as determined at the time of each investment). A Cathay Fund could be subject to significant losses if it holds a large position in a particular investment that declines in value or is otherwise adversely affected.

***Highly Volatile Markets.*** Price movements of securities in which the Cathay Funds assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets such as currency markets. Such intervention often is intended directly to influence prices and may, together with other factors, cause markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. Moreover, since there is generally less government supervision and regulation of foreign stock exchanges and clearinghouses than in the United States, the Cathay Funds' investments also are subject to the risk of the failure of the exchanges on which their positions trade or of their clearinghouses, and there may be a higher risk of financial irregularities and/or lack of appropriate risk monitoring and controls. Highly volatile markets may affect the value of the securities purchased by and the number of investments made by the Cathay Funds.

***Risks Relating to the People's Republic of China.*** As the investment strategy of the Advisers is to make substantially all of the Cathay Funds' investments in companies operating, or affected by economic activity, in the PRC, the performance of these investments and the success of this strategy is subject to a significant degree to developments in the economy and conditions generally in the PRC.

- *Risk of slowdown or decline of the rapidly growing PRC economy.* While the PRC economy has grown rapidly in recent years and certain economic commentators have projected continued future growth, a slowdown or even decline of the PRC economy could have a material adverse impact on (i) the companies invested in by the Cathay Funds and thus the performance of the relevant investments and (ii) the availability of suitable or attractive investment opportunities for the Cathay Funds.
- *Risks related to the evolving economic and political structure of the PRC.* Various reform efforts by the PRC government since 1978, including the PRC's formal entry into the World Trade Organization in 2001, have resulted in significant restructuring of the PRC economy, government, legal and regulatory systems and society generally. These ongoing reforms have resulted in rapid economic growth, particularly in the private sector, and increasing emphasis on market mechanisms. Nevertheless, the PRC's economy continues to differ from the economies of developed countries in a number of important respects, including structure, level of government ownership and involvement, level of development, maturity of institutions, governmental control of foreign exchange and foreign investment and role, maturity and soundness of financial institutions. Moreover, while certain commentators expect reforms to continue, any change in or even reversal of the trend

could have a material adverse impact on (i) the companies invested in by a Cathay Fund and thus the performance of the relevant investments and (ii) the availability of suitable or attractive investment opportunities for the Cathay Funds.

- *Risks related to currency exchange controls and the Renminbi.* The investment strategy of the Advisers may result in all or a substantial portion of the Cathay Funds' investments being denominated, directly or indirectly, in Renminbi. The Renminbi currently is not a freely convertible currency and conversion, where allowed, is at a rate fixed by the PRC government. PRC foreign exchange regulations currently impose significant limitations and prior governmental approvals with respect to foreign exchange transactions, including on repatriation of foreign currency proceeds from the PRC. Such restrictions may result in barriers or difficulties to the Cathay Funds in their successfully pursuing the investment strategy, as to any particular investment or generally.

Moreover, while certain commentators believe the Renminbi to be subject to upward revaluation pressure, any future devaluation of the Renminbi by the PRC government would have an adverse impact on the value in foreign currency terms on the Renminbi denominated investments of the Cathay Funds.

- *Risks related to the legal system in the PRC.* The PRC government has in recent years been developing a comprehensive system of commercial laws and generally reforming the PRC legal system. While significant progress has been made and reforms are ongoing, foreign investors remain subject to significant risks from the PRC legal system, including as a result of significant aspects of the PRC legal infrastructure (including as to protection of shareholder rights) being relatively new, the volume of published cases and judicial interpretations being limited, and continuing weaknesses in the PRC courts and legal institutions, particularly as to legal enforcement of foreign interests.
- *PRC Taxes.* The PRC, unlike the United States, has neither a unified federal taxation scheme like the Internal Revenue Code, nor a central taxing authority like the United States Internal Revenue Service. Instead, tax policy is generally promulgated through any number of governmental departments and notices, and the actual effect of any particular tax promulgation is highly dependent on local practice. There can be no assurance that the respective tax regimes, rules and regulations in the PRC will not change or be amended.

***Investments May Be Leveraged.*** The Cathay Funds may, from time to time, utilize leverage in connection with their investment programs, either on a margin or “project” basis, and may utilize short-term borrowings for operating and investing purposes. The use of leverage can, in certain circumstances, substantially increase the adverse impact to which a Cathay Fund’s investment portfolio may be subject. Trading securities on margin will result in interest charges and, depending on the amount of trading activity, such charges could be substantial. A high degree of leverage necessarily entails a high degree of risk and a Cathay Fund may become subject to claims by financial intermediaries that extended “margin” loans in respect of such managed account.

Such claims could exceed the value of the assets in such Cathay Fund's portfolio. The risks involved in the use of leverage are increased to the extent that a Cathay Fund itself leverages its capital.

***Hedging Transactions.*** Each Cathay Fund may utilize a variety of financial instruments such as derivatives, options, swaps, repurchase and reverse purchase agreements, forward contracts and futures contracts for risk management purposes in order to, among other things, protect against possible changes in the market value of such Cathay Fund's investment portfolio resulting from fluctuations in the securities markets and changes in interest rates or protect such fund's unrealized gains in the value of its investment portfolio.

The success of a Cathay Fund's hedging strategy will depend, in part, upon the applicable Adviser's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the portfolio investments being hedged. Since the characteristics of many securities change as the markets change or time passes, the success of a Cathay Fund's hedging strategy will also be subject to such Adviser's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While a Cathay Fund may enter into hedging transactions to seek to reduce risk, such transactions may result in poorer overall performance than if they had not entered into such hedging transactions. In addition, the applicable Adviser may not hedge against a particular risk because it does not regard the probability of the risk occurring to be sufficiently high to justify the cost of the hedge, or because it does not foresee the occurrence of the risk.

***Currency Trading.*** A portion of each Cathay Fund's assets may be invested by the applicable Adviser in securities denominated in PRC currencies. Each Cathay Fund will, however, value its investments and other assets in U.S. dollars. To the extent unhedged, the value of a Cathay Fund's net assets will fluctuate with U.S. dollar exchange rates as well as with price changes of investments in the PRC currencies. Forward currency contracts and options may be utilized on behalf of a Cathay Fund to hedge against currency fluctuations, but the Advisers neither expect nor are required to hedge against currency fluctuations. There can be no assurance that the failure to hedge against currency fluctuations will not materially adversely affect the value of a Cathay Fund's net assets or that such hedging transactions, even if undertaken, will be effective.

Furthermore, each Cathay Fund may incur costs with conversions between various securities. Currency exchange dealers realize a profit based on the difference between prices at which they are buying and selling various securities. Thus, a dealer normally will offer to sell currency to the Cathay Funds at one rate, while offering a lesser rate of exchange should a Cathay Fund desire immediately to resell that currency to the dealer. Each Cathay Fund will conduct its currency exchange transactions either on a spot (*i.e.*, cash) basis at the spot rate prevailing in the currency exchange market, or through entering into forward or options contracts to purchase or sell non-U.S. securities.

***Short Selling.*** Short selling involves selling securities which are not owned by the short seller and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from a decline in market price to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The

extent to which a Cathay Fund engages in short sales will depend upon the applicable Adviser's investment strategy and opportunities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to a Cathay Fund of buying those securities to cover the short position. There can be no assurance that a Cathay Fund will be able to maintain the ability to borrow securities sold short. In such cases, a Cathay Fund can be "bought in" (*i.e.*, forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

### ***Certain Tax Risks.***

- *Partnership Status of the Cathay Funds for U.S. Federal Tax Purposes.* Each Cathay Fund intends to operate as a partnership for U.S. federal tax purposes. If any Cathay Fund were taxable as a corporation for U.S. federal tax purposes, it would be subject to U.S. federal income taxes on any taxable income at regular corporate tax rates and the limited partners (including an Overseas Fund) would effectively be taxable as corporate shareholders. The ability of limited partners to deduct certain losses generated by the Cathay Funds may be limited under the "at-risk" and "passive loss" limitations of applicable tax laws.
- *Phantom Income.* A limited partner in a Cathay Fund that is a U.S. taxpayer will receive a Form K-1 setting forth the limited partner's share of such Cathay Fund's income and realized gains, if any. Those items must be included in the limited partner's U.S. federal income tax return whether or not the limited partner receives any distributions from such Cathay Fund and whether or not the limited partner's investment has increased in value. As a result, a limited partner in a Cathay Fund that is a U.S. taxpayer may be required to utilize its own funds to satisfy any U.S. federal income tax liability attributable to the investment in such Cathay Fund.
- *Non-U.S. Taxes.* The Cathay Funds may be subject to withholding and other taxes imposed by, and investors in the Cathay Funds might be subject to taxation and reporting requirements in, jurisdictions in which the Cathay Funds make investments, including, without limitation, the PRC. It is possible that tax conventions between such countries and the United States (or another jurisdiction in which a non-U.S. investor in a Cathay Fund is a resident) might reduce or eliminate certain of such taxes. It is also possible that in some cases taxable investors in the Cathay Funds might be entitled to claim foreign tax credits or deductions with respect to such taxes, subject to limitations under applicable law. The governing documents of CCH, CCH II and CCH III treat any such tax withheld or otherwise payable with respect to income allocable to CCH, CCH II or CCH III, as applicable, as cash received by such Cathay Fund and will treat each investor therein (including any Overseas Fund) as receiving a distribution of the portion of such tax that is attributable to such investor. Similar provisions apply in the case of taxes required to be withheld from the Cathay Funds.



In addition to the tax risks outlined above, there are a number of other tax risks involved in investing in any private investment fund, including any Cathay Fund. Each prospective investor in any Cathay Fund should consult with and must depend on its own tax advisors regarding the tax risks and consequences of investing in such Cathay Fund.

***Purchase of “Hot Issues”.*** To the extent permitted by applicable law, from time to time a Cathay Fund may purchase securities that are part of a public distribution. If such securities trade at a premium in the secondary market immediately after the distribution process has commenced, the Financial Industry Regulatory Authority (“**FINRA**”) has taken the position in its Rules that such securities are part of a “hot issue” and, accordingly, members of the FINRA may not sell such securities to an account in which a member, or person affiliated with or related to a member, of the FINRA, or certain other persons, has an interest. Therefore, if an investor is affiliated with or related to a member of the FINRA, or certain other persons, such investor may not be able to participate in the profits derived from hot issues investments.

***Terrorist Action.*** There is a risk of terrorist attacks on the United States and elsewhere causing significant loss of life and property damage and disruptions in global markets. Economic and political sanctions may be in place or imposed on certain states and military action may be commenced. The impact of such events is unclear, but could have a material effect on general economic conditions and liquidity.

## **Item 9. Disciplinary Information.**

On March 1, 2011, the Securities and Futures Commission of Hong Kong (the “**SFC**”) obtained an order from the High Court of the Hong Kong Special Administrative Region, as part of a settlement known as a “*Carecraft* Procedure,” disqualifying Hermann Leung, an indirect beneficial owner of the General Partner, officer of NCIM (defined below) and Executive Director of New China Capital Management (HK) Limited, an affiliate of NCCM, from being a director, liquidator, receiver or manager of the property or business, or being involved in the management, of any listed company in Hong Kong for two years. Such disqualification expired on March 1, 2013.

The settlement was obtained in connection with his role as an alternate, non-executive director of Warderly International Holdings Ltd. (“**Warderly**”). The SFC had previously entered into settlements and obtained similar orders against the executive directors of Warderly concerning the same events. The SFC alleged that Hermann Leung, although an alternate, non-executive director of Warderly, nevertheless should have caused Warderly to disclose to the market certain material events: (i) the deteriorating financial position of Warderly, (ii) the formation of a management committee to address Warderly’s operating and financial issues, (iii) that Warderly’s operations had been substantially disrupted by labor strikes in its PRC factory, and (iv) that Warderly had borrowed money at high interest rates. Further, the SFC alleged that although he was an alternate, non-executive director of Warderly, he nevertheless should have made inquiries which would have led him to know that (a) legal proceedings had been commenced against Warderly by banks and suppliers to recover overdue amounts, (b) a financial adviser had been appointed in respect of a proposed debt restructuring and re-organization, and

(c) an external firm of accountants had been appointed at the request of a bank loan syndicate and had reported on Warderly's deteriorating financial position.

In connection with the settlement, Hermann Leung accepted that in his role as alternate, non-executive director he (i) failed to manage Warderly with the necessary degree of skill, care, diligence and competence as reasonably expected of persons of his knowledge and experience holding his offices and functions within Warderly and (ii) failed on a number of occasions to ensure that Warderly complied with the disclosure requirements under the Listing Rules of the Hong Kong Stock Exchange and to give shareholders all the information they might reasonably expect.

On September 2, 1997, S. Donald Sussman settled a claim (regarding alleged violations of the Advisers Act) with the SEC and paid a \$40,000 civil monetary penalty. The SEC's order (Advisers Act Release No. 1653) is available at: <http://www.sec.gov/litigation/admin/ia1653.txt>.

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

A. The Advisers are not registered, and do not have applications pending to register, as a broker-dealer or registered representative of a broker-dealer. Currently, no supervised persons of either Adviser are registered representatives of a broker-dealer.

B. Neither of the Advisers nor any of their management persons are registered, or have an application pending to register, with the Commodities Futures Trading Commission, as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.

C. Each Adviser is an affiliate of the General Partners. Paul S. Wolansky and S. Donald Sussman are the sole directors of each General Partner.

Each Adviser is an affiliate of New China Investment Management, Inc. ("NCIM"). NCIM is the investment manager of The Cathay Investment Fund, Limited ("CIF"), a private investment fund formerly engaged in making private equity and related investments in greater China and currently in the process of returning capital to its investors. Paul S. Wolansky and S. Donald Sussman each have a 50% direct interest in, and are the sole directors of, NCIM. Certain supervised persons of the Advisers also provide services to NCIM. Paul S. Wolansky and S. Donald Sussman are members of the board of directors of CIF.

Each Adviser is an affiliate of New China Capital Management (HK) Ltd., a Hong Kong limited company, which is beneficially owned by Paul S. Wolansky, S. Donald Sussman and Herman Leung, and which provides administrative and other services to the Advisers.

S. Donald Sussman is the sole beneficial owner of Paloma Advisors. Paloma Advisors has a 49.5% limited partner interest in NCCM and a 45% interest in Cathay Master GP. Paloma Advisors provides investment advisory services to other private investment funds on a discretionary basis. S. Donald Sussman is also the founder, Chairman and part owner of Paloma Partners Management Company ("PPMC"). Subject to Paloma Advisors' authority, PPMC, an

SEC-registered adviser (SEC File Number 801-72796) and a Paloma Advisors affiliate, provides investment advisory services to other investment funds (separate and apart from Paloma Advisors) on a discretionary basis. Paloma Advisors is a “relying adviser” in respect of PPMC’s investment adviser registration with the SEC. Each of Paloma Advisors and PPMC is a member of the National Futures Association (“NFA”), a registered commodity pool operator and a swap firm. S. Donald Sussman is registered with the NFA as a principal and an associated person of both Paloma Advisors and PPMC.

S. Donald Sussman indirectly has an ownership share in Pacific Alternative Asset Management Co LLC, which is currently registered with the SEC as an investment adviser (SEC File Number 801-57416). S. Donald Sussman is registered with the NFA as a principal of Pacific Alternative Asset Management Co LLC. S. Donald Sussman does not currently participate in the management of Pacific Alternative Asset Management Co LLC.

Certain inherent conflicts of interest arise from the fact that the Advisers, the General Partners, and their respective affiliates will provide management and investment management services to multiple Cathay Funds and from the fact that affiliates of the Advisers and the General Partners continue to provide investment management services to CIF, which has had substantially similar investment strategies as the Cathay Funds. In addition, the Advisers and their affiliates may in the future carry on investment activities for other clients (other than CIF), including other investment funds, client accounts and proprietary accounts in which the Cathay Funds will have no interest and where respective investment strategies may or may not be substantially similar.

Depending on the circumstances, a Cathay Fund may co-invest with other funds affiliated with the Advisers and the General Partners. The applicable General Partner will seek the advice of an advisory board consisting of unaffiliated investors in the relevant Cathay Fund (the “**Advisory Board**”) prior to consummating (a) any transaction between such Cathay Fund and any such affiliate in which one party causes another party to purchase or sell securities or other property to or from the other party, (b) any co-investment in a portfolio company by the relevant Cathay Fund and any such affiliate and (c) any investment in a portfolio company in which any such affiliate has a pre-existing investment.

Each Adviser may in the future in its sole and absolute discretion offer any co-investment opportunities that may be available to strategic investors, lenders and/or one or more investors in a Cathay Fund and such Adviser may receive compensation from such persons in connection with such co-investment opportunities. Co-investment opportunities may be made available through entities formed for such purpose. In determining whether any co-investment opportunity exists and the allocation thereof, each Adviser takes into account all relevant factors, including the size of the investment required by the relevant portfolio company, the size of the investment made or proposed to be made by a Cathay Fund, the size of the investment of an investor in such Cathay Fund considered for co-investment and whether providing such opportunity to any other investors that are not investors in the Cathay Funds could potentially benefit such Cathay Fund in any way, at the time of the relevant investment or in the future.

In addition, each Adviser may organize one or more co-investment funds for such Adviser and its employees to co-invest with the Cathay Funds. The employee co-investment funds, if any,

will pay no Management Fee and no carried interest and will invest in portfolio companies at the same time and on terms no more favorable than those of the relevant Cathay Fund.

During the investment commitment period for CCH, NCCM generally had the obligation to present suitable investment opportunities to CCH ahead of any other Cathay Fund. During the investment commitment period for CCH II, NCCM generally had the obligation to present suitable investment opportunities to CCH II ahead of any other Cathay Fund. The investment commitment period for each of CCH and CCH II has expired, and, with the exception of certain follow-on investments, suitable investment opportunities are generally presented to CCH III.

During the investment commitment period for CCH III, any investment opportunity that is presented to Paul S. Wolansky, S. Donald Sussman, Cathay Capital III Master GP or NCCM Corp., and that such party deems in its professional judgment to be suitable and appropriate for CCH III, given the current investment strategy of CCH III, and within the investment guidelines of CCH III, will be offered by Cathay Capital III Master GP to CCH III; provided that the Advisers may have contractual obligations to offer such investment opportunities to CCH or CCH II and certain affiliates in preference to CCH III or affiliates of NCCM Corp. or Cathay Capital III Master GP.

The Advisers and any of their respective partners, directors, members, officers and employees (collectively, “**Investment Persons**”) may engage directly or indirectly in any business or other activities, including exercising investment advisory and management responsibility and buying, selling or otherwise dealing with securities for their own accounts, for the accounts of family members, and for the accounts of individual and institutional clients. These activities may conflict with Investment Persons’ activities on behalf of their clients. For example:

- Investment Persons may individually or on behalf of clients invest in the same securities in which the Cathay Funds may invest or trade (or in the Cathay Funds themselves), and may invest the assets of the Cathay Funds in a security while withdrawing (or recommending the withdrawal of) the same investment held by the Cathay Funds; and
- Investment Persons may give advice and take action in the performance of their duties to one account which may differ from the timing and nature of action taken with respect to another account.

These other activities may affect the prices and availability of the securities and other financial instruments in which the Cathay Funds invest.

The Advisers and their affiliates may in the future form new investment funds with investment objectives and targeted investments which are substantially similar to those of the Cathay Funds. However, the constitutive documents of the Cathay Funds prohibit Paul S. Wolansky and S. Donald Sussman from forming any such new investment funds during the relevant investment commitment period unless otherwise approved by the requisite number of investors in each Cathay Fund. However, the Advisers (and Paul S. Wolansky and S. Donald Sussman) are not prohibited from organizing, sponsoring or otherwise being involved with any (a) fund or program that the applicable General Partner reasonably determines that the principal purposes of

such fund or program is to make investments that would not be suitable for the relevant Cathay Fund or (b) publicly traded acquisition companies and vehicles.

In the event the Advisers carry on investment activities for other clients (other than the Cathay Funds or New Fusion (as defined below), including other investment funds, client accounts, proprietary accounts and sponsorship of publicly-traded acquisition companies and vehicles in which the Cathay Funds will have no interest, the investment strategies employed for such accounts could conflict with transactions and strategies employed in managing the Cathay Funds' portfolios and affect the prices and availability of the securities in which the Cathay Funds invest. Conversely, participation in specific investment opportunities may be appropriate, at times, for both the Cathay Funds and such other accounts. In such cases, participation in such opportunities will be allocated on an equitable basis, taking into account such factors as the relative amounts of capital available for new investment and the respective investment programs and portfolio positions of the Cathay Funds, on the one hand, and the other accounts, on the other hand. Such considerations may result in allocations of certain investments among the Cathay Funds, on the one hand, and the other accounts, on the other hand, on other than a *pari passu* basis.

An affiliate of NCCM has for a number of years been a minority shareholder of, and has provided investment advice to, New Fusion Capital, Ltd. and its affiliates ("**New Fusion**"). New Fusion generally advises clients with respect to investments in China made in Renminbi or large transactions (exceeding \$100 million) typically involving state-owned enterprises. New Fusion has represented to an affiliate of NCCM that the entities managed by NCCM would have certain non-exclusive co-investment rights for any projects developed by it which may be legally invested by foreign investors. Any such potential investment opportunity may be available to the Cathay Funds. In the event that NCCM deems any such project to be suitable and appropriate for the Cathay Funds, Cathay Master GP will seek the advice of the relevant Advisory Board prior to consummation by such Cathay Fund of any such potential investment.

The conflicts and potential conflicts described above are disclosed to investors in the Cathay Funds in the relevant offering documents and/or governing documents, and are further addressed through (a) the good faith judgments and actions of the Investment Persons to treat their clients fairly and in their best interests in accordance with applicable laws and duties, (b) the above mentioned undertakings and restrictions in the operative documents for the Cathay Funds, for example regarding investment opportunities, and (c) applicable compliance policies and procedures of the Advisers and the General Partners.

D. The Advisers do not select or recommend other investment advisors for their clients and do not receive, directly or indirectly, any compensation from other investment advisors.

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

The Advisers adopted a code of ethics (the "**Code of Ethics**") in accordance with Rule 204A-1 of the Advisers Act. The Code of Ethics covers such matters as (a) disclosure of personal securities trading, (b) insider trading, (c) personal conflicts of interests such as providing

investment advice to persons other than the Cathay Funds, accepting gifts and commissions and (d) compliance with applicable anti-corruption and anti-bribery statutes. The Code of Ethics is distributed to each employee at the time of hire. The Code of Ethics is also available to clients and prospective clients upon request by contacting the Chief Compliance Officer, Robert Stillman, at the telephone number or address listed on the Cover Page of this Brochure.

Investment Persons may have multiple advisory, transactional, financial and other interests in securities, instruments, companies or investment vehicles that may be purchased or sold for the Cathay Funds, with potentially different economic beneficial interests and in some cases with fiduciary obligations for different investor constituencies. The Advisers have established a variety of procedures and disclosures designed to address conflicts of interest arising between the Cathay Funds, on the one hand, and the Advisers or the other Investment Persons, on the other. Please see also Item 10 – Other Financial Industry Activities and Affiliations above.

## **Item 12. Brokerage Practices.**

While the Advisers do not typically use broker-dealers to effect portfolio transactions on behalf of the Cathay Funds, in instances where an Adviser does select broker-dealers on behalf of the Cathay Funds, such Adviser does not adhere to any rigid formulas, but weighs a combination of factors or criteria in its selection process. For example, in selecting broker-dealers to effect portfolio transactions, the determination of what is expected to result in best execution on an overall basis involves a number of factors, including: price, the ability of the broker-dealers to effect the transaction, their facilities, reliability and financial responsibility and any products or services provided by such broker-dealers. In placing orders for the purchase and sale of securities for clients, the Advisers' policy is to seek the best execution of orders on an overall basis, which means that it seeks to ensure that the client's total cost or proceeds is the most favorable under the circumstances. Accordingly, if an Adviser determines in good faith that the amount of transaction costs (*e.g.*, commissions, markups and markdowns) imposed by a broker-dealer is reasonable in relation to the value of the products or services provided by such broker-dealer, such Adviser may incur transaction costs to such broker-dealer in an amount greater than the amount that might be incurred if another firm was used. The Advisers do not have any obligation to use execution-only broker-dealers in effectuating transactions on behalf of its clients. Research products or services may include research reports on particular industries and companies, economic surveys and analyses, recommendations as to specific securities and other products or services (*e.g.*, quotation equipment and computer related costs and expenses) providing lawful and appropriate assistance to an Adviser in the performance of its investment decision-making responsibilities. "Soft dollar" payments or rebates of amounts paid to broker-dealers may arise from over-the-counter principal transactions, as well as exchange traded agency transactions. In addition, such payments or rebates may be made by futures brokers in connection with futures transactions.

By directing trades to particular broker-dealers, the Advisers may generate "credits" (which may be redeemed for products and services provided by those broker-dealers). The use of soft dollars may cause clients to effectively pay compensation higher than otherwise would be paid in the absence of a soft dollar arrangement. To the extent an Adviser receives soft dollar products and

services, it is saving money of its own that it would otherwise have to spend (unless those expenses would otherwise be paid for or reimbursed by a fund).

Products and services may be used by the Advisers for themselves and/or in servicing some or all of their clients. Some products and services may not necessarily be used for the Cathay Funds even though their compensation dollars provided for those products and services. The Cathay Funds, therefore, may not, in any particular instance, be the direct or indirect beneficiaries of the products and services provided. Further, the relationships with broker-dealers that provide soft dollar products and services to the Advisers may influence their judgment in allocating brokerage business and create a conflict of interest in using the services of those broker-dealers to execute the relevant Cathay Fund's brokerage transactions. The use of client commissions for soft dollar products and services is subject to the Advisers' policies and procedures, which include the pre-approval and documentation of soft dollar products and services, and a periodic evaluation of the performance and execution capabilities of the broker-dealers that provide products and services to the Advisers.

The Advisers currently have no formal arrangement with specific brokers or dealers to receive research or other services beyond transaction execution for brokerage commissions from client transactions, but may enter into one or more such arrangement in the future.

#### **Item 13. Review of Accounts.**

The portfolio investments of the Cathay Funds are reviewed by the applicable Adviser not less frequently than monthly. The employees of the Advisers monitoring the portfolio investments of the Cathay Funds include the Chief Executive Officer, Managing Directors and other investment professionals.

The applicable Adviser typically provides to the Cathay Funds monthly financial statements, economic allocation schedules and a schedule of portfolio investments. In addition, the applicable Adviser furnishes to investors of the Cathay Funds as soon as practicable after the end of each taxable year (or as otherwise required by law) annual reports containing financial statements audited by such funds' independent public accountants, as well as such tax information provided in writing as is necessary for each investor to complete federal and state income tax or information returns, along with any other tax information required by tax law.

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

A. No persons other than the Cathay Funds provide an economic benefit to the Advisers for providing investment advice or other advisory services to their clients.

B. Neither the Advisers nor any related person directly or indirectly compensates any person who is not a supervised person of the Advisers for client referrals.

**Item 15. Custody.**

Cathay Master GP, an affiliate of NCCM, is deemed, as the general partner of CCH and CCH II, to have custody of CCH's and CCH II's assets. NCCM provides account statements to CCH and CCH II directly.

Cathay Capital III Master GP, an affiliate of NCCM Corp., is deemed, as the general partner of CCH III, to have custody of CCH III's assets. NCCM Corp. provides account statements to CCH III directly.

Please refer to Item 13 – Review of Accounts above for a description of reports that are provided to investors in the Cathay Funds.

**Item 16. Investment Discretion.**

NCCM has been appointed as the investment manager of CCH and CCH II with discretionary trading and investment authorization. NCCM Corp. has been appointed as the investment manager of CCH III with discretionary trading and investment authorization. The Advisers and the General Partners have or will have discretionary authority with respect to investment decisions, and their advice with respect to each applicable Cathay Fund is made in accordance with the investment objectives and guidelines as set forth in such Cathay Fund's Investment Management Agreement, offering documents and/or governing documents. Please refer to Item 4 – Advisory Business and Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss for a description of the investment criteria of the Cathay Funds.

**Item 17. Voting Client Securities.**

As a fiduciary, an investment adviser with proxy voting authority has a duty to monitor corporate events and to vote proxies, as well as a duty to cast votes in the best interest of clients and not subrogate client interests to its own interests. Rule 206(4)-6 under the Advisers Act (the “**Proxy Voting Rule**”) places specific requirements on registered investment advisers with proxy voting authority. Because NCCM has discretionary authority over the securities held by CCH and CCH II, NCCM is viewed as having proxy voting authority over such securities. Because NCCM Corp. has discretionary authority over the securities held by CCH III, NCCM Corp. is viewed as having proxy voting authority over such securities. Accordingly, the Advisers are subject to the Proxy Voting Rule. To meet their obligations under this rule, the Advisers have adopted written Proxy Voting Policies and Procedures, which are available to clients and prospective clients upon request. These policies and procedures are reasonably designed to ensure that the Advisers vote proxies in the best interest of the Cathay Funds and addresses how the Advisers will resolve any conflict of interest that may arise when voting proxies.

**Item 18. Financial Information.**

Neither Adviser is aware of any financial conditions reasonably likely to impair its ability to meet contract commitments to its clients.



**Item 19. Requirements for State-Registered Advisers.**

Not applicable.