

# **HILL PATH CAPITAL LP**

## **PART 2A OF FORM ADV**

### **FIRM BROCHURE**

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**March 29, 2019**

This Brochure provides information about the qualifications and business practices of Hill Path Capital LP (“HPC”). If you have any questions about the contents of this Brochure, please contact us at 212-632-5420. 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.

Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

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

## **Item 2 – Material Changes**

This Brochure (the “Brochure”) replaces the last version of HPC’s Brochure dated March 30, 2018. HPC’s business activities have not changed materially since the time of that update; however certain clarifying amendments and general updates have been incorporated into this brochure dated March 29, 2019.

**We recommend that you read this Part 2A of Form ADV in its entirety.**

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#### **Item 4 – Advisory Business**

HPC is an investment advisory firm established in 2014 and organized as a limited partnership under the laws of Delaware. The founder and principal owner of HPC is Scott Ross (the “Principal”).

HPC provides discretionary investment advice and management services to private investment funds (each, a “Fund”), which are generally structured as limited partnerships or limited liability companies. HPC pursues a long term, contrarian, value-oriented investment strategy applying an active ownership, private equity investment model to public equity markets.

Each Fund’s investment objectives, limitations and/or parameters are set forth in such Fund’s governing documents (the “Fund Documents”) provided to each investor in the given Fund (each, an “Investor”). Please also refer to Item 8 of this Brochure for additional detail related to HPC’s investment strategies and related risks.

HPC tailors its investment advisory services to each Fund. However, HPC does not tailor its advisory services to the individual needs of Investors, and Investors may not impose restrictions on investing in certain securities or types of investments.

HPC does not participate in wrap fee programs.

As of December 31, 2018, HPC manages approximately \$834 million in Fund assets on a discretionary basis.

## **Item 5 – Fees and Compensation**

HPC is generally compensated through asset-based and commitment-based Management Fees and performance-based Carried Interest.

HPC generally receives management fees based on a percentage of assets managed (the “Management Fee”). All Investors in the Funds are “qualified purchasers” as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended (the “Company Act”) (or “knowledgeable employees” pursuant to Rule 3c-5 promulgated under the Company Act), and therefore specific fee information is not required to be included in this Brochure. Management Fees are paid quarterly in advance or on a future date at the discretion of the applicable General Partner and are deducted from each Investor’s assets invested in a Fund. Investors do not have the ability to choose to be billed directly for fees incurred. Management Fees payable to HPC may be reduced or waived on a case-by-case basis in the sole discretion of HPC or an affiliate thereof, and there may be variances in fees, including Management Fees, charged to certain Funds and/or Investors.

Subject to a clawback and a preferred return for the benefit of the Investors, each General Partner or Manager, as applicable, is generally entitled to performance-based compensation, or carried interest (the “Carried Interest”), with respect to profits generated by each Fund’s investments. Carried Interest may be waived on a case-by-case basis in the sole discretion of HPC or an affiliate thereof and certain Funds do not charge any carried interest.

If an advisory contract with a Fund is terminated before the end of any quarterly billing period, HPC will refund to the relevant Fund the amount of the Management Fees pro-rated from the date of termination to the end of the period the advance fee covered. The relevant Fund will then refund such amount to its Investors based on the amount of Management Fees paid by the Investors.

As described above, fees, including Management Fees or Carried Interest, may differ among certain Funds and/or Investors. Please see **Item 6** for important disclosures concerning side-by-side management. Additionally, The General Partner has entered and may enter into additional agreements, or “side letters,” with Fund investors whereby such Fund investors may be subject to terms and conditions that vary from or are more advantageous than those applicable to other Fund investors.

In connection with each Fund and its investments, Hill Path Capital Partners GP LLC, Hill Path Capital S GP, LLC, or Hill Path Capital E GP, LLC (together, the “General Partners” and each a “General Partner”) HPC may receive transaction and monitoring fees (“Transaction Fees”) from third parties, including but not limited to portfolio companies of the Funds. 100% of such Transaction Fees will be applied to reduce the Management Fee, if applicable. Such fees will be subject to acceleration upon certain triggering events, such as the sale or initial public offering of a portfolio company. Additionally, 100% of placement fees will be applied to reduce the Management Fee. HPC’s Principal or employees may, from time to time, serve as board members for portfolio companies and, to the extent received, HPC, the Principal or its employees may retain related director’s fees as compensation. For the avoidance of doubt, director’s fees are not Transaction Fees.

Funds will be responsible for all expenses relating to their own operations (“Fund Expenses”). These expenses will vary, but typically include fees, costs and expenses directly related to the

purchase and sale of investments, securities or other instruments; all costs and expenses, generally subject to a cap, incurred in connection with the organization of the given Fund, its General Partner and the other entities related thereto, including legal and accounting fees, printing costs, travel and out-of-pocket expenses and all costs and expenses incurred in connection with the offering of interests (“Organizational Expenses”); expenses of custodians, counsel and accountants; any insurance, indemnity or litigation expenses; Fund administration expenses; compliance costs of the Fund, its General Partner and the entities related thereto; any taxes, fees or other governmental charges levied against a Fund; and any fees charged by any administrative service providers. In addition, each Fund will be responsible for all of its own fees and expenses due to any legal, financial, accounting, consulting or other advisors (including certain fees and expenses to Operating Partners) or any lenders, investment banks and other financing sources in connection with transactions which are or are not consummated.

A Fund may directly or indirectly bear the fees, costs or expenses of certain services provided by the operating partners (the “Operating Partners”). The Operating Partners generally provide consulting and advisory services to HPC and are not employees or affiliates of HPC. While the fees, costs or expenses paid to Operating Partners are believed by HPC to be reasonable and generally at market rates, such arrangements are not negotiated at arm’s length and, from time to time, may be in excess of what would be charged by a third party for comparable activities. Fees and compensation paid to Operating Partners may take a variety of forms, including, but not limited to, profit sharing payments, a profits interest in an individual portfolio company or a director’s fee for service on a portfolio company’s board of directors. Additionally, Operating Partners may be hired to serve as executives of HPC’s portfolio companies and would receive compensation directly from portfolio companies for such service. The fees, costs and expenses incurred by a Fund in connection with the Operating Partners will be treated as Fund expenses and such amounts will not, for the avoidance of doubt, offset the Management Fee.

The applicable General Partner and HPC will be responsible for all of their respective routine day-to-day operating expenses, including office overhead and compensation of employees.

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

Funds will utilize brokerage services and will bear the expenses of such services. Please refer to Item 12 of this Brochure for a description of HPC’s brokerage practices.

See Item 16 for disclosure related to side letters.

**Investors and prospective Investors should refer to the applicable Fund Documents for a complete description of fees and expenses paid to HPC and its affiliates. The information contained herein is a summary only.**

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

As described in Item 5, HPC (or one of its affiliate) is generally eligible to receive performance-based compensation upon the distribution of investment proceeds. Additionally, as discussed under *Item 5* ("Fees and Compensation") above, the amount of Management Fees and Carried Interests that the Adviser receives can vary depending upon the Fund. Due to such discrepancies, a potential conflict of interest could arise. Such variance in fees may create an incentive for HPC to make investments that are riskier or more speculative for fee-paying clients. HPC addresses this potential conflict through regular monitoring of each Fund's portfolio as described in Item 13 of this Brochure in order to help ensure that a Fund's investments are consistent with its investment guidelines and risk management policies. In addition, the Principal invested a substantial amount of capital, thus aligning, to some extent, the interests of HPC with the interests of each Fund. Further, the Fund Documents provide Investors and potential Investors with extensive disclosure regarding the potential risks relating to an investment in a Fund, including material conflicts of interest.

**Complete fee disclosures, as well as descriptions of related potential conflicts of interest, are provided in the Fund Documents. Investors and prospective Investors should review such disclosures carefully.**

## **Item 7 – Types of Clients**

HPC presently provides investment advisory services to eight pooled investment vehicles operating as private investment funds, collectively the “Funds”:

- Hill Path Capital Partners LP (including the Feeder”Fund I”)
- Hill Path Capital Partners (Cayman) LP (the “Feeder”)
- Hill Path Capital Partners II, LP (together with Fund I, the “Main Funds”)
- Hill Path Capital Co-Investment Partners LP
- Hill Path Co-Investment Partners E LP
- Hill Path Co-Investment Partners E2 LP
- Hill Path Capital Co-Investment Partners S LP
- Hill Path Capital Partners-H LP
- Hill Path SAI F01 LLC
- OL Acquisition, LLC

Each Fund offers interests only to certain qualified investors who meet qualification requirements under applicable securities laws and other laws. Admission to the Funds is not open to the general public.

The Fund Documents generally state a minimum capital commitment, although lesser commitment amounts may be accepted in the discretion of HPC (or the applicable General Partner).

During 2016, the Feeder was created as a feeder vehicle to Fund I. Investors in the Fund I have the option to split their commitments to the Fund I between the Feeder and Fund I for investments having certain tax characteristics.



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

### **Investment Strategy**

HPC pursues a long term, contrarian, value-oriented investment strategy applying an active ownership, private equity investment model to public equity markets. Additionally, HPC may opportunistically invest in private companies. HPC will conduct a rigorous and comprehensive research and due diligence process prior to making each investment. HPC will make investment decisions based on its view of the quality of the underlying business, the level of understanding of the business, the attractiveness of the valuation, the scope for value-added improvements, the downside risk of the investment and the overall expected returns of the investment.

As detailed above, HPC has formed and may continue to form certain vehicles established to act as co-investment vehicles for certain Main Fund limited partners and other strategic investors. These vehicles may co-invest all or substantially all of their assets into one or more investments made by the Main Funds by participating in such investments alongside the Main Funds.

Although the Advisor will generally focus on making investments in the equity securities of public companies, HPC may also invest in other types of investments including, but not limited to, derivatives, swaps, debt and other types of equity and non-equity investments. HPC may also selectively make short-sale investments.

### **Summary of Risk Factors**

**Despite HPC’s research and analysis, investing in securities involves risk of loss that Investors and prospective Investors must be prepared to bear. HPC’s investment strategy entails substantial risks, including, but not limited to, those listed below. Further risk factors are discussed in the applicable Fund Documents.**

***Illiquid and Long-Term Investments.*** Investment in a Fund requires a long-term commitment with no certainty of return. While each Fund intends to invest the majority of its capital in publicly-traded investments, some of its investments may be highly illiquid, and there can be no assurance that a Fund will be able to realize on such investments in a timely manner. While an investment may be sold at any time, it is generally expected that a Fund will hold its investments for a number of years after the investment is made. In addition, in some cases a Fund may be prohibited by contract or legal or regulatory reasons from selling certain investments for a period of time.

***General Economic and Market Conditions.*** A Fund’s activities may be significantly and adversely affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of securities prices and the liquidity of a Fund’s investments. Unexpected volatility or illiquidity could impair a Fund’s profitability or result in losses.

***Material Non-Public Information.*** By reason of their responsibilities in connection with the activities of a Fund or otherwise, certain employees of HPC, a General Partner and their respective affiliates may acquire confidential or material non-public information or be restricted from initiating transactions in certain securities. The given Fund will not be free to act upon any such information. Due to these restrictions, a Fund may not be able to initiate a transaction that it

otherwise might have initiated and may not be able to sell an investment that it otherwise might have sold.

***Board Participation.*** It is possible that a Fund's investment program may from time to time enable the Fund to place its representatives on boards of certain companies in which that Fund has invested. While such representation may enable HPC to enhance the sale value of its investments, it may also prevent the given Fund from freely disposing of its investments, because affiliates are restricted with respect to resales, and board representation may also subject the given Fund to additional liability. A Fund will indemnify its General Partner, HPC or any other person designated as a board representative by its General Partner or HPC for claims arising from such board representation. Each Fund will attempt to balance the advantages and disadvantages of such representation when deciding whether and how to exercise its rights with respect to such companies, but the exercise of such rights could produce adverse consequences in particular situations.

***Leverage of Portfolio Companies.*** Because a Fund's investments may include securities of companies with leveraged capital structures, such investments will be subject to increased exposure to adverse economic factors such as an increase in interest rates, a downturn in the economy or further deterioration in the economic conditions of such company or its industry. Similarly, a Fund may invest in entities that are unable to generate sufficient cash flow to meet principal and interest payments on their indebtedness. Accordingly, the value of a Fund's investment in such an entity could be significantly reduced or even eliminated due to further credit deterioration.

***Risks of Certain Investments.*** A Fund may invest in companies undergoing significant economic and corporate change. Because of the inherently speculative nature of this activity, the results of a Fund's operations may fluctuate from period to period. The returns generated from such an investment program may not adequately compensate investors for the business and financial risk assumed. A Fund's investments may be adversely affected by changes in economic conditions or political events that are beyond its control.

***Portfolio Turnover.*** While each Fund does not expect to actively trade into and out of specific positions, a Fund will not be restricted in effecting transactions by any specific limitations with regard to its portfolio turnover rate. Fund investments may be sold for a variety of reasons, such as a more favorable investment opportunity or other circumstances bearing on the desirability of a continued position in such investments. Accordingly, a Fund's investment program could result in substantial portfolio turnover.

***Distributions.*** Since each Fund expects to make distributions to the Investors only to the extent that investment proceeds are not recycled and not used to pay fees and expenses of the given Fund, an investment in a Fund will not be suitable for investors seeking current income. Moreover, an investor will be required to report and pay taxes on its allocable share of income from the given Fund, even though no cash may be distributed by that Fund.

***Leverage; Risk of Borrowing.*** A General Partner may utilize leverage in connection with the investments. Although a General Partner will seek to use leverage in a manner it believes is prudent, such leverage will increase the exposure of an investment to adverse economic factors such as rising interest rates, downturns in the economy, or deteriorations in the condition of the investment. Borrowings by a Fund or its subsidiaries have the potential to enhance a Fund's returns; however, they will further diminish returns (or increase losses on capital) to the extent overall returns are less than the Fund's or such subsidiaries' cost of funds.

**Business Risk.** The companies in which a Fund invests may involve a high degree of business and financial risk. These companies, in some cases, may have significant variations in operating results, may be engaged in a rapidly changing business environment, and may require significant additional capital to support their operations, or may otherwise have a weak or unstable financial condition.

**Investments in Undervalued Assets.** Funds invest in undervalued assets. The identification of investment opportunities in undervalued assets is a difficult task, and there is no assurance that such opportunities will be successfully recognized or acquired. While investments in undervalued assets offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from a Fund's investments may not adequately compensate the Investors for the business and financial risks assumed. An Investor should be aware that it may lose all or part of its investment in a Fund. A Fund may be forced to sell, at a substantial loss, assets which it believes are undervalued, if they are not in fact undervalued. In addition, a Fund may be required to hold such assets for a substantial period of time before realizing their anticipated value. During this period, a portion of a Fund's funds would be committed to the assets purchased, thus possibly preventing the Fund from investing in other opportunities. In addition, a Fund may finance such purchases with borrowed funds and thus will have to pay interest on such funds during such waiting period.

**Significant Positions.** Portfolio companies in which a Fund may invest could have a relatively small aggregate number of outstanding shares, so that a given Fund may acquire (i) more than 5% of a class of securities of a single issuer which would require the filing of a Schedule 13D or 13G statement with the Securities and Exchange Commission or (ii) more than 10% of a class of securities of a single issuer (which would impose certain limitations on the Fund's ability to trade in those securities, including the restrictions of Section 16 of the Securities Exchange Act of 1934). The accumulation of such a significant position in the shares of a single issuer could lead to litigation or disputes in the event HPC desires to influence the issuer. A Fund may also seek to challenge the management of a portfolio company through a proxy contest. Such litigation or proxy contest may result in substantial expense to a Fund, thus reducing the value of the Fund's investment. Moreover, a Fund's ability to realize value from certain of its investments may depend upon the ability of HPC to influence the management of a portfolio company to take certain actions, including, for example, a recapitalization, restructuring, spin off, sale of the business or change in management. If HPC is incorrect in its assessment of the impact such action will have on the value of a portfolio company, or if it is unsuccessful in persuading the portfolio company's management to take the desired action, the given Fund may sustain a loss on its investment in the portfolio company, resulting in a reduction of the value of the Fund's investment.

**Foreign Securities.** A Fund may invest in securities and other instruments of foreign corporations and foreign countries. Investing in the securities of companies in foreign countries involves certain considerations not usually associated with investing in securities of U.S. companies, including, among other things, political and economic considerations, such as greater risks of expropriation, nationalization and general social, political and economic instability; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; and fluctuations in the rate of exchange between currencies and costs associated with currency conversion, imposition of withholdings and other taxes and certain government policies that may restrict a Fund's investment opportunities. In addition, accounting and financial reporting standards that prevail in many foreign countries are not equivalent to U.S. standards and, consequently, less information may be available to investors in companies located in foreign countries than is available to investors in companies located in the United States. There is also less regulation, generally, of the securities markets in many foreign countries than there is in the United States.

***Loans and Other Debt Investments.*** A Fund may invest in a variety of loans and debt instruments. The risks of loans and debt instruments include, but are not limited to: (i) limited liquidity and secondary market support, (ii) the possibility that earnings of the obligor may be insufficient to meet its debt service, (iii) the declining creditworthiness and potential for insolvency of the borrower during periods of economic downturn, (iv) spread compression over the reference interest rate available for reinvestment during any period in which prepayments are received and (vi) if the investment is subordinated, subordination to the prior claims of other loans or senior lenders. Loans and debt instruments are generally subject to market value volatility that may not be apparent from historical volatility studies and that could be significant at times. An economic downturn could severely disrupt the market for loans and corporate debt and adversely affect the value of outstanding loans and fixed income holdings and the ability of the borrowers thereunder to repay principal and interest. Moreover, defaults may prove to be greater than indicated by historical data and the timing of defaults may vary significantly from historical observations.

Loans and debt instruments may become non-performing for a variety of reasons. Non-performing instruments may require substantial workout negotiations or restructuring that may entail, among other things, a substantial reduction in the interest rate and/or a substantial write-down of the principal. A Fund may incur additional expenses to the extent it is required to seek recovery upon a default or to participate in the restructuring of a loan or debt instrument. Although a Fund may have voting rights with respect to an individual holding, there can be no certainty that the given Fund will be able to exercise votes in respect of a sufficient percentage of voting rights with respect to such holding to determine the outcome of such vote.

Loans can often be illiquid and possess credit risks. In addition, because of the unique and customized nature of a loan and the private syndication of a loan, certain loans may not be purchased or sold as easily as publicly traded securities, and historically the trading volume in the loan market has been small relative to other public markets. Trading in loans is subject to delays due to their unique and customized nature, and transfers may require extensive documentation, the payment of significant fees and the consent of an agent bank or the underlying borrower

***Convertible Securities.*** Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. A convertible security entitles the holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique investment characteristics in that they generally (i) have higher yields than common stocks, but lower yields than comparable non-convertible securities, (ii) are less subject to fluctuation in value than the underlying common stock due to their fixed-income characteristics and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases.

The value of a convertible security is a function of its “investment value” (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its “conversion value” (the security’s worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security’s investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value

is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium decreases as the convertible security approaches maturity.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by a Fund is called for redemption, the given Fund will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third-party. Any of these actions could have an adverse effect on a Fund's ability to achieve its investment objective

**Short Selling.** A Fund may engage in short sales by selling securities that it does not own at the time of sale. By doing so, the Fund will become obligated to purchase and deliver securities against the short position. In the event that the price of a security increases between the short sale and a Fund's subsequent purchase of shares of that security, the Fund will suffer a loss on that transaction and the value of the Investors' investments will decrease accordingly. There can be no assurance that a Fund will not suffer such losses. In theory, a short sale has the potential for unlimited loss. In connection with short sales, each Fund will have to deliver cash or U.S. Treasury securities or other securities to brokers to assure delivery of securities against short positions. A Fund will be able to keep only a negotiated percentage of the yield of such U.S. Treasury or other securities.

The availability of securities to borrow to execute a short can change quite dramatically and quickly. This presents a risk not faced with long positions. Recent moves by securities regulators all over the world to ban or limit short selling creates a new dimension of the risk. Dramatic changes in the availability of borrowed securities for shorting is an event not typically addressable through fundamental security analysis. Short squeezes or short covering rallies can be quite detrimental to overall profits. Avoiding hard-to-borrow shares or illiquid names is a basic risk management discipline. Easy-to-borrow securities can become hard-to-borrow quickly. The negative "crowding out" effect is more prevalent with the rapid growth in the number of long-short funds in the marketplace.

**Derivative Instruments.** HPC may use various derivative instruments, including futures, options, forward contracts, swaps and other derivatives that may be volatile and speculative. Certain positions may be subject to wide and sudden fluctuations in market value, with a resulting fluctuation in the amount of profits and losses. The use of derivative instruments presents various risks, including the following:

*Liquidity* – Derivatives, especially when traded in large amounts, may not be liquid in all circumstances, so that in volatile markets, a Fund may not be able to close out a position without incurring a loss. In addition, daily limits on price fluctuations and speculative position limits on exchanges on which a Fund may conduct its transactions in derivatives may prevent profitable liquidation of positions, subjecting the Fund to the potential of greater losses. The market for many derivatives is, or suddenly can become, illiquid. Changes in liquidity may result in significant, rapid and unpredictable changes in the prices for derivatives.

*Leverage* – Trading in derivative instruments can result in large amounts of synthetic leverage. Thus, the leverage offered by trading in derivative instruments may magnify the

gains and losses experienced by a Fund and could cause the given Fund's net asset value to be subject to wider fluctuations than would be the case if the Fund did not invest in derivative instruments that provide leverage.

*Over-the-Counter-Trading* – Derivatives that may be purchased or sold by a Fund may include securities and instruments not traded on an exchange. The risk of nonperformance by the obligor on a security or instrument may be greater than, and the ease with which a Fund can dispose of or enter into closing transactions with respect to a security or instrument may be less than, the risk associated with an exchange traded security. In addition, significant disparities may exist between “bid” and “asked” prices for derivatives that are not traded on an exchange. Derivatives not traded on exchanges also are not subject to the same type of government regulation as exchange traded securities, and many of the protections afforded to participants in a regulated environment may not be available in connection with the transactions.

*Options* – The successful use of options depends on the ability of HPC to forecast interest rate and market movements correctly. In addition, when it purchases an option, a Fund runs the risk that it will lose its entire investment in the option in a relatively short period of time, unless the Fund exercises the option or enters into a closing transaction with respect to the option during the life of the option. If the price of the underlying security does not rise (in the case of a call) or fall (in the case of a put) to an extent sufficient to cover the option premium and transaction costs, the given Fund will lose part or all of its investment in the option. There is no assurance that a Fund will be able to affect closing transactions at any particular time or at any acceptable price.

***Counterparty Risk.*** To the extent that contracts for investment will be entered into between a Fund and a market counterparty as principal (and not as agent), a Fund is exposed to the risk that the market counterparty may, in an insolvency or similar event, be unable to meet its contractual obligations to the Fund. A Fund may have a limited number of potential counterparties for certain of its investments, which may significantly impair the Fund's ability to reduce its exposure to counterparty risk. In addition, difficulty reaching an agreement with any single counterparty could limit or eliminate a Fund's ability to execute such investments altogether. Because certain purchases, sales, hedging, financing arrangements, and other instruments in which a Fund may engage are not traded on an exchange but are instead traded between counterparties based on contractual relationships, each Fund is subject to the risk that a counterparty will not perform its obligations under the related contracts. Although each Fund intends to pursue its remedies under any such contracts, there can be no assurance that a counterparty will not default and that the given Fund will not sustain a loss on a transaction as a result.

***Investment in Joint Ventures.*** A Fund may pursue certain of its strategies by investment in ventures such as syndicates or “club” deals that are not controlled by HPC or its affiliates. As a result, a Fund would likely be required to bear the expenses and fees associated with such ventures. Any such costs and expenses would not reduce the Management Fee and Carried Interest payable at the Fund level and may result in higher aggregate expenses and fees borne by Investors with respect to such investments than if such investments were made directly by the given Fund.

***Potential Involvement in Litigation.*** As a result of the possibility that a Fund may invest in distressed investments, take-private opportunities and restructuring activities, it is possible that a Fund may be involved in litigation. Litigation entails expense and the possibility of claims and/or

counterclaims against a Fund, and ultimately judgments may be rendered against the Fund or settlements may be entered into by the Fund for which the given Fund does not carry insurance.

***Execution Risks and Investment Manager Error.*** The execution of the trading and investment strategies employed by HPC can often require complex trades, difficult to execute trades, the use of negotiated terms with counterparties such as in the use of derivatives, and the execution of trades involving less common or novel instruments. In each case, HPC seeks best execution and has trained execution and operational staff devoted to executing, settling and clearing such trades. However, in light of the complexity and global diversity involved, some errors and miscommunications with brokers and counterparties are inevitable and may result in losses to a Fund. HPC will evaluate the merits of potential claims for damage against brokers and counterparties who are at fault, and to the extent practicable, will seek to recover losses from those parties. HPC may choose to forego pursuing claims against brokers and counterparties on behalf of a Fund for any reason including, but not limited to, the cost of pursuing claims relative to the likely amount of any recovery and the maintenance of its business relationships with brokers and counterparties. In addition, HPC's own execution and operational staff may be solely or partly responsible for errors that occur during the investment decision-making process or the trading process (such as in the placing, processing and settling of trades) that result in losses to a Fund ("trade errors"). HPC attempts to minimize such trade errors by promptly reconciling confirmations with trade tickets, and by reviewing past trade errors to understand the internal control breakdown that caused the trade errors. To the extent that trade errors do occur, in accordance with its internal policies, HPC will correct them as soon as practicable and, generally, a Fund will bear the cost of such errors in the absence of gross negligence. HPC's staff will also ensure that trade errors are promptly reported to the relevant personnel and reviewed to determine whether policies or procedures should be changed to prevent future trade errors.

***Financial Fraud.*** Instances of fraud and other deceptive practices committed by senior management of certain companies in which a Fund invests may undermine HPC's due diligence efforts with respect to such companies, and if such fraud is discovered, negatively affect the valuation of a Fund's investments. In addition, when discovered, financial fraud may contribute to overall market volatility which can negatively impact a Fund's investment program.

## **Item 9 – Disciplinary Information**

Neither HPC nor any of its management persons have any legal or disciplinary events that would be material to an Investor’s evaluation of HPC or the integrity of HPC’s management.



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

Neither HPC nor any of its management persons is registered, or has an application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission merchant, commodity pool operator, commodity trading advisor, or is an associated person of any of the above.

HPC serves as the investment manager to each Fund. As mentioned above, each General Partner is an affiliate of HPC by common ownership and control. Any persons acting on behalf of a General Partner are subject to the supervision and control of HPC. While the General Partners are not separately registered as an investment adviser, all of its activities are subject to the Investment Advisers Act of 1940, as amended (the “Advisers Act”) and the rules thereunder.

HPC’s affiliation with the General Partners creates a potential conflict of interest in that such affiliation may cause HPC or the General Partners to take greater risks than they may have otherwise. This conflict of interest is addressed as described in Item 6.

HPC has adopted a Code of Ethics concerning trading by personnel of HPC that is designed to detect and prevent potential conflicts of interest between HPC, each Fund and each Fund’s Investors. Please refer to Item 11 below for additional information regarding HPC’s Code of Ethics.

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

HPC has adopted a Code of Ethics (the “Code”) pursuant to Rule 204A-1 of the Advisers Act. The Code applies to HPC’s “Access Persons,” which generally includes all employees of HPC and its affiliates.

The Code sets forth a standard of business conduct and requires Access Persons to act in HPC’s Funds’ best interests and in accordance with applicable rules and regulations. Upon hire and at least annually thereafter, all Access Persons are required to acknowledge their receipt of, and agreement to abide by, the Code. Further, Access Persons are required to promptly bring violations of the Code to the attention of HPC’s Chief Compliance Officer.

HPC prohibits most personal trading by its Access Persons, except for certain securities and in certain instances that are exempt from this policy, such as trading in mutual funds, ETFs, money market funds, United States treasuries, and cash equivalents. The Code details HPC’s policies for maintaining current and accurate records of all personal securities accounts of its Access Persons and their immediate family residing in their households, as well as accounts over which Access Persons have discretion, in an effort to monitor personal trading activity in accordance with Advisers Act Rule 204A-1.

HPC maintains a “Restricted List” with the names of issuers of securities about which HPC (or its Access Persons) has learned material, non-public information. Access Persons are strictly prohibited from trading securities on the Restricted List (or any other securities to which the material, non-public information relates).

HPC recognizes the potential for conflicts of interest. Procedures for identifying and resolving such potential conflicts are discussed in the Code. Also, as discussed below, the LP Advisory Committee may be called upon, as necessary, to provide advice and counsel in connection with potential conflicts of interest and other matters related to a Fund.

The paragraphs above only represent a summary of the key provisions in HPC’s Code. Investors or prospective Investors may obtain a copy of the entire Code upon request.

Certain of the General Partners have established a committee (the “LP Advisory Committee”) comprised of representatives of selected Investors. The LP Advisory Committee provides advice and counsel as requested by the General Partner in connection with potential conflicts of interest and other matters related to a Fund. There can be no assurance that HPC or the General Partner will resolve all conflicts of interest in a manner that is favorable to the given Fund, but in all circumstances, HPC will attempt to resolve any conflicts of interest by exercising the good faith required of fiduciaries, and further believes that it will be able to resolve conflicts on an equitable basis.

### **Allocation of Investment Opportunities**

In the event that HPC or an affiliate is entitled to receive a higher percentage of the net profits of the account of one Fund than the percentage that HPC or an affiliate receives from another Fund with a similar investment strategy, then HPC may have an incentive to favor, or to allocate certain riskier or more speculative investments to, the Fund that is subject to the higher percentage.

To alleviate potential conflicts of interest that could arise from simultaneously pursuing active investments on behalf of two or more Funds with similar/overlapping investment strategies, a Fund's governing documents will typically prohibit HPC, without the prior approval of the Fund's LP Advisory Committee, from closing on a successor Fund with an investment strategy substantially similar to that of the current Fund until such date(s) when permitted by the current Fund.

#### Dispositions of Investments Held By Multiple Funds

From time to time, the same security may be held in one or more Funds. If the term of a Fund ends at a different time than other Funds, the Manager may be required to sell a security in one Fund before another. This sale may impact the values of such securities and the returns of the other Funds.

#### Co-Investments

Subject to any specific allocation requirements set forth in the Fund Documents and/or side letters granted to Investors, the following selection and allocation criteria will be considered in determining the selection of co-investors and the allocation of co-investment opportunities.

##### *Co-Investor Determination/Selection Criteria*

Co-Investments will be offered to investors based on a range of factors, including, but not limited to:

- Size of a co-investment opportunity;
- Strategic value of a prospective co-investor to the portfolio company to which a co-investment opportunity relates;
- The ability of a prospective co-investor to conduct its own due diligence, make an investment decision and fund a co-investment opportunity within the applicable timeline for completing the co-investment;
- Whether a prospective co-investor has the financial and other resources to make the co-investment;
- Whether a prospective co-investor has previously indicated a desire to make investments of the type represented by the co-investment opportunity;
- Whether a prospective co-investor is likely to prove to be a suitable partner to the portfolio company to which the co-investment opportunity relates (e.g., by demonstrating to the applicable Fund's general partner and/or such portfolio company's satisfaction that it: (i) will be able to meet future investment needs of such portfolio company on a timely basis and (ii) adequately understands the business plan and operations of such portfolio company);
- Any requirements or restrictions relating to the selection of co-investors set forth in the governing documents of the Fund(s) to which a co-investment opportunity relates and/or in any side letters granted to applicable Investors;
- Tax, legal and/or regulatory considerations; and
- Any other factors determined by the applicable Fund's general partner, in its sole discretion, to be relevant to the co-investor selection process.

### *Allocation Amongst Interested Co-Investors*

After the selection of interested co-investors, co-investment opportunities will be allocated based first on allocation-related requirements (including capacity reserves) set forth in any side letters granted to Investors in the Fund(s), as well as any applicable legal or regulatory requirements. After such allocations, HPC and its affiliates, will, in their sole discretion, determine the allocation of such investment opportunity that is available for co-investment.

In addition, a Fund may buy assets from, or sell assets to, HPC, its affiliates or its management personnel (including the Principal). This could potentially create a conflict of interest between HPC and a Fund because HPC would have an incentive to negotiate more favorable terms for itself, its affiliates or its management personnel at the expense of the Fund. As a result, HPC is subject to notice and consent obligations in connection with the operation of the Funds for which it acts as an investment manager in the event it enters transactions deemed to be “principal transactions.” HPC has established policies and procedures that address these principal transactions. Additionally, the Fund Documents may establish the terms of any principal transactions or restrict principal transactions. To the extent that a Fund may engage in principal transactions with HPC, its affiliates or its management personnel, HPC provides Investors disclosure of the potential for principal transactions and the process for approving such transactions.

### Cross-Trading Policy

HPC has adopted a Cross-Trading Policy to address any potential conflicts which might arise from effecting trades between client accounts. This policy permits HPC to effect trades between Funds where HPC believes it to be in the best interests of both Funds and permitted under the Fund Agreements of each Fund, subject to the following limitations and guidelines:

- (1) HPC will not effect a cross trade between Funds if such cross trade would constitute a principal transaction, unless prior notice and consent requirements required by law are satisfied.
- (2) The cross trade shall be effected for cash consideration at the current fair value of the particular securities.
- (3) Neither HPC nor any of its affiliates may receive any compensation for effecting the trade.

Subject to the foregoing guidelines, it is HPC’s policy prior to effecting a cross trade, whether for rebalancing or for any other purpose, to determine independently that such cross trade would be appropriate for both Funds involved, based upon, among other things, each Fund’s investment/risk parameters, assets under management, liquidity and portfolio exposure, tax considerations and any other relevant factors.

## **Item 12 – Brokerage Practices**

### **Best Execution**

HPC has sole authority for selecting the broker-dealer used in each transaction of publicly-traded securities and for negotiating fees paid to the broker-dealer in connection with such transactions. When executing transactions in exchange-traded securities, HPC recognizes that it has a duty to obtain “best execution” for any securities transactions made for a Fund.

HPC will consider a number of factors in selecting appropriate broker-dealers, including, but not limited to, commission rates, reliability, financial responsibility, strength of the broker, ability of the broker to efficiently execute transactions, the broker’s facilities and the broker’s provision or payment of the costs of brokerage and research services. In the selection of brokers, HPC may also be influenced by other services provided by brokers including, without limitation, marketing assistance, consulting with respect to technology, operations or equipment and other services or items.

HPC may utilize third-party outsourced trading services providers. The total execution costs associated with transactions executed through such providers typically exceed the costs charged by prime brokers. This additional cost is offset, in part, through what HPC believes are better execution prices that such providers are able to obtain. HPC believes that the use of an agent in such instances is consistent with its duty of obtaining “best execution” for its Funds.

HPC conducts periodic and systematic evaluations of its broker-dealers and trading practices in an effort to meet its duty to obtain “best execution” of securities transactions.

### **Directed Brokerage Arrangements**

HPC does not permit Investors to recommend directed brokerage arrangements to a Fund.

### **Soft Dollars**

HPC uses soft dollars and such arrangements currently fall within the “safe harbor” under Section 28(e) of the Securities Exchange Act of 1934, as amended.

Soft Dollar Benefits Section 28(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), provides a safe harbor that allows an investment adviser to pay more than the lowest available commission in order to obtain research and brokerage products and services (commonly referred to as a “soft dollar” arrangement). That practice involves a conflict of interest, but Section 28(e) of the Exchange Act provides that it does not breach HPC’s fiduciary duty to the Fund if the products and services consist of “research” or “brokerage” and certain other conditions and requirements are met.

HPC is authorized to pay higher prices for the purchase of securities from, or accept lower prices for the sale of securities to, brokerage firms that provide it with such research and trading related products and services or to pay higher commissions to such firms if HPC determines such prices or commissions are reasonable in relation to the overall services provided. Accordingly, a Fund may be deemed to be paying for research and other products and services with “soft” or commission dollars.

HPC may utilize proprietary and third party research and brokerage products and services provided by brokers that provide value to a Fund's investment activities. Such research and brokerage products and services could include: reports on or other information about particular companies or industries; economic surveys and analyses; recommendations as to specific securities; financial and industry publications; portfolio evaluation services; financial database software and services; computerized news, pricing and statistical services; analytical software; proxy analysis services and systems; quotation services; and other products and services that may enhance HPC's investment decision-making.

HPC's use of soft dollars currently falls within the safe harbor provided by Section 28(e) of the Exchange Act. The fact that HPC may be provided with research and brokerage products and services rather than having to produce or pay for such products and services itself presents a conflict of interest and could incentivize HPC to choose brokers providing such products and services.

Subject to its best execution obligations, HPC may use capital introduction or referral services provided by broker-dealers for a Fund. If HPC were to pay for such services with its soft dollars, such services would fall outside the safe harbor. This presents a potential conflict of interest because HPC is compensated based upon assets under management and performance and therefore has an incentive to select broker-dealers based upon investor referrals, which could lead to higher compensation for HPC. HPC may consider such services in selecting broker dealers for a Fund and addresses the potential conflicts of interest in connection with its brokerage practices through its best execution review process.

#### Trade Aggregation

If HPC determines that it would be appropriate for the Main Funds and other vehicles or accounts sponsored or managed by HPC or its affiliates to participate in an investment opportunity (taking into account such factors as HPC in good faith deems appropriate), HPC will seek to execute orders for all of the participating accounts on an equitable basis. If HPC has determined to trade in the same direction in the same security at the same time for the Main Funds and other vehicles or accounts, HPC is authorized generally to combine such order and if all such orders are not filled at the same price, the orders may be filled at an average price, which normally will be the same average price at which contemporaneously entered proprietary orders are filled on that day. Similarly, if an order on behalf of more than one account cannot be fully executed under prevailing market conditions HPC may allocate the trades among the different accounts on a basis that it considers equitable. Situations may occur where one vehicle or account could be disadvantaged because of the various other activities conducted by HPC.

### **Item 13 – Review of Accounts**

HPC continuously reviews investments for investment performance, valuation changes, market developments, adherence to investment guidelines and strategies, risk analysis and monthly reporting.

Generally, Investors will receive unaudited quarterly reports, annual audited financial statements within 120 days of the fiscal year-end (*i.e.*, generally by April 30) and annual tax information.

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

HPC is not currently party to any agreement to compensate a third party for investor referrals and marketing advice but may enter into such agreements or arrangements in the future. These arrangements are intended to be in compliance with the applicable rules and regulations of the Advisers Act. HPC effectively bears any placement agent fees either directly or by offsetting the management fees payable to it by the amount of any placement agent fees on a dollar-for-dollar basis. Investors should be aware that the receipt of compensation by a placement agent or third party solicitor may create a conflict of interest, and may affect the judgment of the placement agent or solicitor when making a recommendation for an investment with HPC. In addition, any third-party compensation arrangement will comply with federal and state laws regulating third-party compensation.

Please refer to Item 5 above for disclosure regarding the receipt of Transaction Fees by HPC or certain of its affiliates.

Please refer to Item 12 above for disclosure regarding HPC's use of capital introduction or referral services provided by broker-dealers for a Fund.



## **Item 15 – Custody**

HPC is deemed to have custody of each Fund's assets pursuant to Advisers Act Rule 206(4)-2. To ensure compliance with Rule 206(4)-2, HPC will provide audited financial statements to Investors within 120 days of each Fund's fiscal year-end.

Funds will invest in exchange-traded securities and those securities and other assets will be maintained with a qualified custodian under the Fund's name. The qualified custodian will send HPC the account statements for each Fund's account. See Item 13 for information related to reports delivered to Investors.

HPC's investment program may also involve uncertificated investments in private companies. HPC generally will be exempt from the requirement that those securities be maintained with a qualified custodian.

## **Item 16 – Investment Discretion**

HPC has discretionary authority to manage securities accounts on behalf of each Fund, subject the applicable Fund Documents. Investors do not have the ability to impose limitations on the discretionary authority of HPC.

Each Investor must execute a subscription agreement in which it makes various representations, including representations regarding its suitability to invest in a high-risk investment pool.

HPC or the General Partner may, from time to time, cause a Fund to enter into side letter agreements. Such side letter agreements may provide certain Investors with terms (e.g., Management Fees, Carried Interest, rights to participate in co-investment opportunities, limitations on certain investments, etc.) additional to, or different from, those terms set forth in the Fund Documents.

## **Item 17 – Voting Client Securities**

HPC understands and appreciates the importance of proxy voting. HPC has developed policies and procedures in the event that it must vote proxies on behalf of each Fund.

HPC will vote any proxies received in the best interests of each Fund and in accordance with any procedures described to Investors. Prior to voting any proxies with respect to a Fund, HPC will review the applicable proxy solicitation materials for potential conflicts of interest. If a conflict is identified, HPC will determine whether the conflict is material. If no material conflict is identified pursuant to these procedures, HPC will vote such proxy in accordance with the best interests of each Fund in a manner that HPC believes would maximize the value or minimize the losses of each Fund.

If a material conflict is identified, HPC will consider the conflict and determine what course of action is in the best interests of each Fund and how to mitigate such conflict. Steps used to mitigate a conflict of interest may include, but are not limited to, voting in the manner determined to be in the best economic interests of a Fund, voting in the manner determined to be appropriate in consultation with outside counsel or voting in accordance with the recommendations of an independent third-party proxy voting service. Further, HPC will determine (in its sole discretion) whether it is appropriate to disclose the conflict to Investors.

Investors do not have the ability to direct proxy votes. Investors may obtain additional information regarding how HPC has voted proxies and may obtain a copy of HPC's proxy voting policies and procedures by contacting the Chief Compliance Officer.

## **Item 18 – Financial Information**

HPC has no financial condition that impairs its ability to meet contractual commitments to clients.  
HPC has not been the subject of a bankruptcy petition.