



## Part 2A of Form ADV: Firm Brochure

### Item 1 – Cover Page

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August 14, 2019

This Brochure provides information about the qualifications and business practices of Leste Capital Partners (Florida), LLC (“**Leste Florida**”). If you have any questions about the contents of this Brochure, please contact us at [compliance@leste.com](mailto:compliance@leste.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “**SEC**”) (or by any state securities authority).

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

Any reference to any of Leste Florida, as a “registered investment adviser” or as being “registered,” does not imply a certain level of skill or training.



## **Item 2 – Material Changes**

Leste Florida has not yet been required to file an annual update to its Brochure and there are no material changes to report in this Item. In the future, this item will be used to report any material changes in accordance with the instructions to Form ADV.



### **Item 3 – Table of Content**

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## Item 4 – Advisory Business

### Overview of Leste Group

Leste Florida, a Delaware limited liability company, is an investment adviser that is part of an affiliated group of investment advisers (the “**Leste Group**”) as further described herein. Leste Group is an alternative investment platform founded in 2014 by Mr. Emmanuel Rose Hermann who employed other investment professionals with relevant background in the financial, corporate and real estate markets for the purposes of developing investment adviser activities. Leste Group has presence in four jurisdictions: United States of America, Brazil, the United Kingdom and the Cayman Islands.

As of the date hereof, Leste Group encompasses the following affiliated investment adviser entities which are all filing concurrently for registration as an investment adviser with the SEC:

- Leste Florida;
- Leste USA, LLC, a Delaware limited liability company (“**Leste USA**”);
- Leste Financial Services Gestão de Recursos Ltda. (“**LFS**”), a *sociedade limitada* organized under the laws of Brazil. LFS is also registered as an investment adviser with the *Comissão de Valores Mobiliários*, the Securities and Exchange Commission of Brazil (“**CVM**”);
- Leste Credit Gestão de Recursos Ltda. (“**Leste Credit**”), a *sociedade limitada* organized under the laws of Brazil. Leste Credit is also registered as an investment adviser with CVM;
- Leste Administração de Recursos Ltda. (“**LGI**”), a *sociedade limitada* organized under the laws of Brazil. LGI is also registered as an investment adviser with CVM; and
- Leste Cayman Inc. (“**Leste Cayman**”), a Cayman Islands incorporation. Leste Cayman is also registered with the Cayman Islands Monetary Authority.



As explained in Item 10 – “Other Financial Industry Affiliations and Activities” below, Leste Group has certain other advisory affiliates in Brazil and in the United Kingdom. Each of these affiliates relies on its own exemption from registration as an investment adviser with the SEC. The Leste Group, together with such other affiliated advisory affiliates (each, an “**Other Leste Advisory Affiliate**”), is referred to herein, collectively, as the “**Leste Group Advisory Entities**”.

All investment advisers of the Leste Group are directly or indirectly owned or controlled by Leste Holding, LLC, a holding company organized as a Delaware limited liability company that, in turn, is wholly owned by Mr. Emmanuel Rose Hermann.

Leste Florida, Leste USA, LFS, Leste Credit, LGI and Leste Cayman have been formed as separate legal entities for business, organizational or regulatory purposes, but conduct a single advisory business under the supervision and control of Mr. Emmanuel Rose Hermann. They have the same chief compliance officer and are subject to the same compliance procedures. Therefore, and to enhance transparency for clients and investors of each entity composing the Leste Group, the Leste Group has been treated as a single business for the purpose of this Brochure.

The Leste Group has also established, for business, organizational or regulatory purposes, a number of special purpose entities that serve as sponsors, general partners, managing members (or equivalent) (each, a “**Leste GP SPE**”) of one or more Leste Funds (as defined in this Item 4 – “Advisory Business” below). All Leste GP SPEs conducting business as of the date of this Brochure are listed in Section 7.A of Leste Group’s Form ADV Part 1A. References to “**we**”, “**us**” or “**our**” herein refer, collectively, to Leste Florida, Leste USA, LFS, Leste Credit, LGI, Leste Cayman and the Leste GP SPEs. While each of the Other Leste Advisory Affiliates relies on its own exemption from registration as an investment adviser with the SEC, Leste Group decided to impose its compliance procedures also on each Other Leste Advisory Affiliate.

### **Lines of Business**

Leste Group, through Leste Florida, Leste USA, LFS, Leste Credit, LGI and Leste Cayman, pursues five business lines: (i) Leste Global Investments, (ii) Leste Credit, (iii) Leste Real Estate, (iv) Leste Global Ventures and (v) Leste Financial Services. See



also Item 8 – “Method of Analysis, Investment Strategies and Risk of Loss” for further details about the investment strategies referenced in the following general overview of Leste Group’s lines of business.

<b>Leste Credit</b>	
Leste Group members conducting this line of business:	Leste Florida and Leste Credit
Other Leste Advisory Affiliates conducting this line of business:	None
Strategies and Instruments:	<p>Discretionary advisory services to pooled investment vehicles, the primary purpose of which is to invest in structured transactions such as senior secured corporate debt, securitizations, leveraged financing (mezzanine or subordinated debt) and high yield bonds, focusing on the Brazilian, U.S. and rest of Latin American markets.</p> <p>The Leste Credit line of business may tailor investment vehicles to high net worth or institutional investors with specific purposes of investing in Leste Credit strategies.</p>

<b>Leste Real Estate</b>	
Leste Group members conducting this line of business:	Leste Florida
Other Leste Advisory Affiliates conducting this line of business:	Leste Real Estate Brazil (as defined in Item 10 – “Other Financial Industry Affiliations and Activities” below) is part of the Leste Real Estate line of business. Leste Real Estate Brazil implements a Brazilian real estate strategy.
Strategies and Instruments:	Discretionary advisory services to pooled investment vehicles, the primary purpose of which is to invest in



	<p>investment opportunities related to real estate assets in the United States.</p> <p>The Leste Real Estate line of business may tailor investment vehicles to high net worth or institutional investors with specific purposes of investing in Leste Real Estate strategies or to acquire a specific real estate asset.</p>
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<b>Leste Global Investments</b>	
Leste Group members conducting this line of business:	LGI and Leste USA
Other Leste Advisory Affiliates conducting this line of business:	Leste UK (as defined in Item 10 – “Other Financial Industry Affiliations and Activities” below) is part of the Leste Global Investments line of business. Leste UK implements a corporate fundamentals strategy.
Strategies and Instruments:	<p>Discretionary advisory services to pooled investment vehicles that engage in multi-manager investment strategies.</p> <p>The strategies applied by the Leste Global Investments line of business are gathered into the following clusters:</p> <ul style="list-style-type: none"> <li>- <u><i>Event-Driven</i></u>: merger arbitrage, share class and special situations (almost 90% of such strategy portfolio involves U.S. equities).</li> <li>- <u><i>Corporate Fundamentals</i></u>: Corporate fundamentals and credit trading, including long or short stocks and corporate bond portfolios.</li> <li>- <u><i>Macro</i></u>: FX, stock indices, sovereign credit and interest rate (allocation from a macro perspective).</li> <li>- <u><i>Diversified</i></u>: quantitative trading and opportunistic trading.</li> </ul>



	The Leste Global Investments line of business may tailor investment vehicles to high net worth or institutional investors with specific purposes of investing in Leste Global Investments strategies.
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<b>Leste Global Ventures</b>	
Leste Group member conducting this line of business:	Leste USA
Other Leste Advisory Affiliates conducting this line of business:	None
Strategies and Instruments:	<p>Leste Global Ventures identifies and implements investment opportunities related to the venture capital investments in companies in the United States and Brazil that are not publicly traded.</p> <p>The Leste Global Ventures line of business may tailor investment vehicles to high net worth or institutional investors with specific purposes of investing in Leste Global Ventures strategies or to invest in a specific private equity deal.</p>

<b>Leste Financial Services</b>	
Leste Group members conducting this line of business:	LFS and Leste Cayman
Other Leste Advisory Affiliates conducting this	None





line of business:	
Strategies and Instruments:	<p>The Leste Financial Services line of business manages on a discretionary basis (i) the cash positions of all clients managed by any of the other investment advisers of the Leste Group and (ii) certain investment vehicles of Mr. Hermann's family members.</p> <p>Leste Financial Services also centralizes personnel and resources that are shared among the advisers constituting the Leste Group and the Other Leste Advisory Affiliates and provides back-office and support services to other business lines (including risk controls, compliance, legal, investor relations and fund administration).</p> <p>The Leste Financial Services line of business may tailor investment vehicles to high net worth or institutional investors with specific purposes of investing in the Leste Group's strategies.</p>

Certain Other Leste Advisory Affiliates also pursue litigation financing and private equity as separate lines of business, conducted through LLF Brazil and Leste Private Equity Brazil (each, as defined in Item 10 – “Other Financial Industry Affiliations and Activities” below).

Under certain circumstances, Leste Florida, Leste USA, LFS, Leste Credit, LGI or Leste Cayman may contract with a client to adhere to limited risk and/or operating guidelines imposed by the client. We negotiate such arrangements on a case-by-case basis.

Leste Florida, Leste USA, LFS, Leste Credit, LGI or Leste Cayman, as applicable, implements the investment strategies described above by providing discretionary advisory services to various investment funds, including certain investment vehicles of Mr. Hermann's family members (each, a “**Leste Fund**”) and, as of the date of this brochure, one managed account for a non-U.S. fund-of-one of the Mr. Hermann's family (the “**Leste SMA**”). In the future, we may provide discretionary and/or non-discretionary



investment advice to other private investment funds and/or separately managed accounts (collectively with the Leste Funds and the Leste SMA, Leste's "**clients**"). For business, organizational or regulatory purposes, Other Leste Advisory Affiliates may act as primary advisers or sub-advisers of our clients.

Each Leste Fund is governed by the investment restrictions and guidelines contained in its respective governing and/or offering documents (in each case, such Leste Fund's "**Memorandum**"). Information about the Leste Funds, including information about investment strategies, fees, expenses, risks and other material information, is contained in each Leste Fund's Memorandum. (See Item 16 "Investment Discretion" below.)

We generally will not permit investors in a Leste Fund to impose limitations on the investment activities described in the Memorandum for such Leste Fund. However, under certain circumstances, we may contract with a client to adhere to limited risk and/or operating guidelines imposed by the client. We negotiate such arrangements on a case-by-case basis.

Leste Group does not participate in any wrap fee program.

As of May 31, 2019, Leste Florida managed approximately \$143,849,602 in regulatory assets under management on a discretionary basis. Currently, we do not manage any assets on a non-discretionary basis. The amount of the regulatory assets under management reported herein are estimated based on unaudited financial statements.

For the regulatory assets under management of each of Leste USA, LFS, Leste Credit, LGI and Leste Cayman, please refer to the Form ADV Part 2A brochure used by Leste USA, LFS, Leste Credit, LGI and Leste Cayman for their respective investment adviser registration with the SEC. For the cumulative regulatory assets under management of the Leste Group, please refer to the Form ADV Part 2A brochure used by LFS, Leste Credit, LGI and Leste Cayman for their respective investment adviser registration with the SEC. Note that a substantial portion of the regulatory assets under management of each member of the Leste Group is jointly managed by one or more other entities comprising the Leste Group. Accordingly, the Leste Group's cumulative assets under management are substantially lower than the collective regulatory assets under



management reported in the Form ADV Part 2A brochure of LFS, Leste Credit, LGI and Leste Cayman.



## **Item 5 – Fees and Compensation**

In general, Leste Group advisory entities charges an asset-based advisory fee of up to 2% per annum, calculated based on either the net asset value (“NAV”), amount of capital commitment or amount of invested capital of the relevant Leste Fund. In general, the NAV, amount of capital commitment or investment capital, as applicable, is determined at the end of each month or quarter to determine the management fees payable for the following month or quarter, as applicable. We generally deduct our management fees from the Leste Funds monthly in arrears.

Leste Group advisory entities also generally charge a performance-based compensation (please see Item 6 – “Performance-Based Fees” for more detail). Generally, we receive performance-based fees, carried interest or allocations from the Leste Funds either on a semi-annual or annual basis in arrears or upon the distribution of capital. We also may receive performance-based fees, carried interest or allocations on a withdrawal/redemption by a Leste Fund investor. Management fees and performance-based fees or allocations are generally not refundable, including upon the termination of the advisory contract.

The extent and specific terms pursuant to which our clients are responsible for management fees, performance-based compensation and/or expenses are set forth in each client’s applicable written agreement with us and, in the case of the Leste Funds, such fund’s Memorandum.

Asset-based and performance-based compensation payable with respect to a particular class of interests or shares of a Leste Fund generally are non-negotiable, except that they may be reduced, modified or waived in the case of Leste Group affiliates/related persons, strategic/significant relationships and customized products.

Leste Group’s asset-based and performance-based compensation are not inclusive of all fees and expenses that Leste Funds will pay. The following is a list of fees and expenses that Leste Funds typically will pay directly to third parties:

- (i) Organizational expenses;
- (ii) Administrator fees;



- (iii) Independent Director fees;
- (iv) Custodian fees;
- (v) Legal fees;
- (vi) Regulatory fees, governmental charges and duties;
- (vii) Accounting fees;
- (viii) Audit fees;
- (ix) Brokerage costs;
- (x) Bank wire fees;
- (xi) Independent valuation agent fees;
- (xii) Rating agencies fees;
- (xiii) Research fees;
- (xiv) Market maker fees;
- (xv) Placement agent fees;
- (xvi) Fees and charges clearing agencies;
- (xvii) Interest and commitment fees on loans and debit balances;
- (xviii) Asset-based and performance-based compensation of external investment advisors;
- (xix) Expenses related to the preparation and filing of investor reports, disclosure documents, regulatory and other filings and notifications of, or related to the activities of, the relevant Leste Fund;
- (xx) Costs relating to the preparation and filing of Form PF;
- (xxi) Expenses related to notifications and communications between the client and the investors;
- (xxii) Expenses related to the exercise of proxy voting;
- (xxiii) Any costs incurred in respect of meetings of the Independent Directors (including any committees) and meetings, if any, of shareholders;
- (xxiv) Expenses not covered by insurance policies;
- (xxv) Extraordinary expenses, including litigation expense;
- (xxvi) Hedging costs and expenses; and
- (xxvii) Investment structuring expenses.

With respect to each Leste Fund that invests in a master fund, generally all expenses of such fund will be borne by the master fund, other than any expenses that the Leste Group determines in its discretion should be allocated to a particular feeder fund. While such Leste Funds will generally share or be allocated the expenses of the master fund



on a *pro rata* basis based on their respective ownership of the master fund, the economic benefit that each such Leste Fund receives with respect to such expenses may not be the same.

In addition, the investment expenses (e.g., expenses related to the investment and custody of the client's assets) as well as other client fees may, in the aggregate, constitute a high percentage relative to other investment entities. The client will bear these costs regardless of its profitability.

We may also allocate a portion of certain clients' capital to money market funds, exchange-traded funds or similar fee-bearing products, or private investment funds and accounts, that are managed by other unaffiliated investment managers. In that case, such client accounts generally would be responsible for paying any and all fees, performance-based compensation and expenses associated with such products, which would be in addition to those discussed above.

Leste Group may charge certain clients other expense items that are not listed above. Details of the type of expenses charged to a Leste Fund are specified in such fund's then current Memorandum.

Investors in a Leste Fund indirectly bear their *pro rata* share of such additional fees and expenses for the time period they are invested in such Leste Fund.

To the extent that we incur any expenses for the benefit of multiple clients, we will allocate such expenses in a manner among such clients that we deem equitable, taking into account our clients' respective governing documents and applicable facts and circumstances, including the relative size of the applicable entity or account, the nature or source of the product or service and the benefits derived from and the extent of use of the product or services. Nonetheless, the portion of an expense that we may allocate to a client for a particular product or service might not reflect the relative benefit derived by such client from that product or service in any particular instance. Also, it is possible that under some of our advisory contracts we may not require a client to incur certain expenses, despite the fact that such client will receive a benefit in connection with our incurrence of such expenses. In such an event, the other clients may bear the additional share of any such expenses that would have been allocable to the client that is not



required to incur such expenses. Our expense allocations often depend on inherently subjective determinations, but the expense allocations made by us will be in good faith. There is no compensation paid by third-parties to affiliates of the Leste Group or its supervised persons for recommending investment products to Leste Funds. All compensation paid by Leste Funds are the asset-based management fees or performance-based compensation described in Item 5 “Fees and Compensation” and Item 6 “Performance-Based Fees and Side-by-Side Management” of this Brochure and the Memorandum of the relevant Leste Fund.

Leste Group advisory affiliates or certain Leste Funds have entered into, and expect to enter into, agreements with placement agents providing for one-time or ongoing payments from a Leste Group advisory affiliate or such Leste Fund based upon the amount of an investor’s investment or capital commitment to such Leste Fund or the asset-based compensation and/or performance-based compensation borne by an investor that was introduced to such Leste Fund by the placement agent. Amounts paid by a Leste Fund to any placement agent will typically reduce the asset-based compensation and/or performance-based compensation otherwise payable or allocable in respect of the investor that was introduced to the Leste Fund by such placement agent.

Leste Group and its personnel generally can be expected to receive certain intangible and/or other benefits and/or perquisites arising or resulting from their activities on behalf of clients and client portfolio investments, including benefits and other discounts provided from service providers. For example, airline travel or hotel stays incurred as a client expense typically result in cash rebates, “miles,” “points” or credit in loyalty/status programs, and such benefits and/or amounts will exclusively benefit the Adviser and/or such personnel even though the cost of the underlying service is borne by clients. The value of such benefits and perquisites will neither be subject to an offset against fees or expenses payable by clients nor will they otherwise be shared with clients and/or portfolio investments.

In some cases, our certain investment vehicles of Mr. Hermann’s family members will pay or reimburse some or all of the overhead expenses of the Leste Group advisory affiliates.



For a summary of our brokerage practices, see Item 12 – “Brokerage Practices” below.





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

### **Performance-Based Compensation**

In addition to the asset-based advisory fees disclosed in Item 5 – “Fees and Compensation” above, most Leste Funds pay also a performance-based compensation (which may take the form of a performance fee, performance allocation, carried interest or other payment) from certain clients that may vary between 10 to 30% of net profits of such client as further described below. Leste Fund investors are provided with detailed disclosure in the applicable offering documents of such Fund as to how the relevant performance-based compensation is calculated and charged in the relevant fund’s Memorandum.

For Leste Funds that are part of the Leste Global Investment line of business, such performance-based compensation is generally structured as a performance fee or incentive allocation calculated based on realized and unrealized gains and subject to loss carry-forward mechanics (and, in some cases, a “performance hurdle”). Under a loss carry-forward provision (also referred to as a “high water mark”), if the relevant Leste Fund has a loss chargeable to it during any fiscal year or other measurement period, and during a subsequent fiscal year or other measurement period there is a profit allocable to such Leste Fund, there will be no performance-based compensation due until the amount of the loss previously allocated has been recouped.

Leste Global business lines other than Leste Global Investment often have a performance-based compensation structure as a carried interest paid out of net disposition proceeds. The relevant distribution waterfall may or may not be subject to a preferred return and/or catch-up for the Leste advisory entity or its affiliates.

Performance-based compensation will conform to Rule 205-3 under the U.S. Investment Advisers Act of 1940, as amended (the “**Advisers Act**”), to the extent applicable.

The size of the performance-based compensation as between clients varies and depends on a number of factors including, but not limited to, the level of asset-based advisory fee charged and the use of performance hurdles. Unless waived for a



particular investor or type of investor, investors in a Leste Fund are allocated their *pro rata* share of performance-based fees for the time period they are invested in the Leste Fund.

The different level of performance-based compensation between client accounts may result in a conflict of interest when we allocate investment opportunities among these accounts because we will have an incentive to favor an account from which we are entitled to receive performance-based compensation (or greater performance-based compensation) over other accounts. To avoid such a conflict of interest, we generally follow documented procedures in allocating opportunities among such accounts, which do not take into account the compensation to which such accounts are subject.

### **Investment Allocation**

When we determine that a particular investment opportunity would be desirable for more than one client, we seek to allocate such opportunity among such clients in a manner that we deem fair and equitable under the circumstances existing at such time. The factors that we may consider in making such determination include (but are not limited to): (i) the mandate of each client account; (ii) the relative amounts of capital in each client's account available for new positions of the type at issue; (iii) our perception of the appropriate risk/reward ratio for each client account; (iv) the intended objective and strategy of each client account and any applicable investment or risk targets/profile; (v) investment restrictions or guidelines; (vi) the term and/or liquidity of each client account at the time of investment and thereafter; (vii) the ability to add positions to a client account on a leveraged basis; (viii) liquidity of the security; (ix) market capitalization and/or enterprise value of the underlying credit; (x) whether the position is an "odd lot"; (xi) whether certain accounts would receive nominal or *de minimis* allocation amounts; (xii) transaction costs; position size; industry exposure; (xiii) market exposure; (xiv) gross, net, long and short exposure; (xv) applicable legal, tax and regulatory considerations; (xvi) the overall portfolio composition of each client account; and (xvii) such other considerations that we determine to be relevant at such time. New issues (as defined by FINRA rule 5130) are generally allocated to client accounts in accordance with the criteria set forth above to the extent that such accounts are eligible to participate in new issues.



Certain clients, including certain Leste Funds managed for the Mr. Hermann family, have a multi-strategy investment mandate that overlaps with the investment mandate of other Leste Fund that pursue a more specific investment strategy. We generally allocate (based on the allocation criteria described above) investment opportunities primarily as between Leste Funds that have (i) a more specific investment mandate and (ii) investors that are not affiliated with the Leste Group or the Mr. Hermann family. Generally only the excess investment opportunities (if any) will then be allocated (based on the allocation criteria described above) as between Leste Funds with a multi-strategy investment mandate, including certain Leste Funds managed for the Mr. Hermann family.

Notwithstanding the foregoing, there can be no assurance that certain allocation decisions will not directly or indirectly adversely affect our clients, even if such decisions are made in good faith. Investment allocations are subject to a significant degree of discretion exercised by us, including, but not limited to, in connection with portfolio rebalancing, investing in new, different or additional investment strategies and in connection with admissions and withdrawals of investors to and from the private investment funds that we manage. Even allocations designed to mitigate conflicts do not eliminate the possibility that an allocation of assets will not adversely affect our clients.

Our personnel and/or other related persons, including certain Leste Funds managed for the Mr. Hermann family, invest in one or more of our clients. In such case, we may have an incentive to favor the client(s) in which they have a greater economic interest and/or may have a conflict of interest in allocating investment opportunities among those client accounts and other client accounts. In order to mitigate these potential conflicts, we will generally follow the allocation procedures referenced above.

As management fees of certain clients are based on the net asset value of client assets, and as the performance-based compensation is based for certain clients on the realized and unrealized gains of client assets, we may have a conflict of interest in valuing the assets held in client accounts. To the extent we are responsible for valuing a client's assets, we will follow our documented valuation policies in order to mitigate this risk.

Since the amount of fees paid/allocation made to us is dependent in part on the profitability of the applicable client, we may have an incentive to cause clients to make



investments that are riskier or more speculative than would be the case if such fees/allocations were not dependent on the clients' net asset value and profitability. We recognize that we have a fiduciary duty and as such must act in the best interests of our clients.

Clients and investors in the Leste Funds are urged to review the investment management agreements and/or Memorandum of the relevant Leste Fund(s) regarding the specific fees, performance-based compensation and expenses applicable to them.



## Item 7 – Types of Clients

We currently provide investment advice primarily to clients who are private investment funds. U.S. investors in such private investment funds generally must qualify as “accredited investors” (as defined in Rule 501 under the U.S. Securities Act of 1933, as amended (“**Securities Act**”)) and investors in U.S. funds generally must be “qualified clients” (as defined in Rule 205-3 of the Advisers Act) or “qualified purchasers” (as defined in the U.S. Investment Company Act of 1940, as amended (the “**Company Act**”)). In addition, investors may be subject to other suitability requirements to the extent provided in the applicable Leste Fund’s Memorandum. We may provide investment advice to other types of clients in the future.

Some Leste Funds have a minimum investment amount set forth in the Memorandum that is generally between US\$10,000 and US\$ 1,000,000 (or the equivalent in Brazilian Reais), subject to each Leste Fund’s discretion to accept lesser amounts. We will determine the minimum investment amount (and any other conditions for opening and maintaining an account) for other clients, such as any separately managed accounts, on a case-by-case basis.



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

### **Method of Analysis and Investment Strategies**

The development of an investment strategy for each of our clients is an ongoing process. The strategies, techniques and methods described in Item 4 “Advisory Business” and this Item 8 will therefore be modified by us from time to time and over time.

There is no limitation on the investment strategies, techniques, methods or processes which we may adopt for any particular client or the factors that we may take into account in analyzing investments for our clients. Depending on conditions and trends in securities markets and the economy generally, we may pursue other objectives, or employ other strategies, techniques, methods or processes, that we consider appropriate and in the best interest of the clients, without notice to them or their consent, except to the extent that our written agreement with a client may provide otherwise.

The description of our investment strategies, techniques, methods and processes described in Item 4 – “Advisory Business” and this Item 8 is intended only as a general overview, and is subject to the specific terms of our written agreements with clients.

### **Liquid Strategies**

Liquid strategies are pursued by Leste Global Investments business line and encompasses a wide range of strategies that may vary from time to time. In general, portfolio managers of liquid strategies select and monitor the relevant Leste Funds’ investments based on (i) risk management techniques, (ii) levels of volatility, (iii) liquidity, (iv) investment performance and philosophies, and (v) factors relating to management and operations. As of the date of this Brochure, Leste Global Investments strategies are grouped into four clusters – sets of strategies with thematic affinity - as described below.



### **Event-Driven**

This cluster mainly seeks investment opportunities on announced deals related to merger arbitrage events. Besides the specific risk arbitrage strategy ("Risk Arb"), the cluster is comprised of strategies that explore special situations that arise from M&A processes ("Special Sits") and relative value strategies, exploring possible mispricing between share classes of a given company ("**Share Class**").

### **Corporate Fundamentals**

This cluster focusses on soft catalyst events that can change the valuation perception of listed companies in the global markets. Soft catalysts events include capital market activities, re-financings, corporate restructurings, management changes, regulatory changes, competitive dynamics, product innovation and price distortion. Investments are made on listed equity shares and credit instruments.

The cluster is divided in a strategy mainly focused in stock picking ("Corp Fund") and a strategy dedicated to credit instruments ("Credit Trading")

### **Macro**

This cluster focusses on exploring political and macroeconomic investment theses, covering different asset classes such as FX, interest rates and stocks, investing across global markets. The cluster is segregated by region of expertise and investment horizon, including the following strategies: "Global Macro", "EM Macro" and "CIO Macro".

### **Diversified**

This clusters covers supplementary and uncorrelated strategies to the relevant Leste Fund's main investment themes. This cluster trades arbitrations, quantitative models, volatility and other risk classes unrelated to the previous strategies. There are three strictly quantitative strategies currently active in the cluster ("Quants" 1,2 & 3), and an opportunistic strategy ("CIO Diversified") dedicated to tactical allocations in global markets, and not necessarily triggered by quantitative drivers. Details are provided in the Memorandum of the relevant Leste Fund.



The main sources of information used to formulate investment advice and/or manage assets includes financial publications, research materials prepared by others, corporate rating services, annual reports, prospectuses, filings with different regulators, company press releases and timing services.

### **Illiquid Strategies**

As of the date of this Brochure, the following illiquid strategies are pursued by Leste Credit, Leste Real Estate and Leste Global Ventures business lines:

#### **Credit (pursued by Leste Credit business line)**

Focus on structured transactions such as senior secured corporate debt, securitizations, leveraged financing (mezzanine or subordinated debt), high yield bonds issued in Latin America and United States of America and companies in distressed situations.

#### **Global Ventures (pursued by Leste Global Ventures business line)**

Leste Global Ventures identifies and implements venture capital investment opportunities related to the equity investment in early stage companies in the United States and Brazil that are not publicly traded. The Leste Global Ventures line of business may tailor products to the individual needs of clients, providing solutions that meet specific requirements of a particular investment or type of investment.

#### **Real Estate (pursued by Leste Real Estate business line)**

Discretionary advisory services to pooled investment vehicles whose primary purpose is to invest in investment opportunities related to real estate assets in the United States. The Leste Real Estate line of business may tailor products to the individual needs of clients, providing solutions that meet specific requirements of a particular investment or type of investment.





## **General Risks**

### **Risk of Loss**

No guarantee or representation is made that the investment program of our clients, including client's respective investment objective, diversification strategies or risk monitoring goals, will be successful. Investment results may vary substantially over time. No assurance can be made that profits will be achieved by any of our clients or that substantial or complete losses will not be incurred by any or all of our clients. Some investment strategies, as adopted, may result in equity losses for our clients, including losses higher than the assets invested and the consequent obligation to provide additional funds to cover such losses.

### **General Economic Conditions**

The success of any investment activity is influenced by general economic conditions, which may affect the level and volatility of interest rates and the extent and timing of investor participation in the markets for both equity and interest-rate-sensitive securities. Unexpected volatility or illiquidity in the markets in which our clients directly or indirectly holds positions could impair our clients' ability to carry out its business and could cause it to incur losses.

### **Global Economic Conditions and Credit Market Dislocation**

The ability of certain clients to pursue its investment objectives and its returns may be closely tied to the global economic environment. During the recent global credit crisis that began in 2008 and persisted for several years, the global economy slowed in response to a declining residential real estate market, monetary tightening by central banks, rising prices of petroleum and other commodities, markdowns by, and lower perceived creditworthiness of, financial institutions, declining business and consumer confidence, tightening credit conditions, and rising unemployment. The continuing effects of the recent our economic downturn and any future instability in the global economic and credit markets could negatively impact our clients' expected returns. Global rates of growth or economic conditions that are weak for a prolonged period of time may pose risks of systematic defaults by borrowers, inflationary or exchange-rate



pressures or geopolitical disturbances that could adversely affect our clients' returns. As a result of these factors, our clients could incur significant losses or simply fail to meet its objectives.

#### *Dependence on the Leste Group*

The underlying investors in our clients have no authority to make decisions or to exercise business discretion on behalf of our clients. The authority for such decisions is generally delegated to the Leste Group. The success of our clients depends upon the ability of the Leste Group to develop and implement investment strategies that achieve the investment objectives of our clients. Subjective decisions made by the Leste Group may cause our clients to incur losses or to miss profit opportunities on which it would otherwise have capitalized. The investment performance of our clients are substantially dependent on the services of certain key individuals of the Leste Group. In the event of the death, incapacity, departure, insolvency or withdrawal of any of these individuals, the performance of our clients an may be adversely affected.

#### *Achievement of our Clients' Investment Objective*

No guarantee or assurance can be given that our clients will achieve their investment objective of capital appreciation. Furthermore, in response to market, economic, political, or other conditions, certain clients may temporarily use a different investment strategy for defensive purposes. If a clients does so, different factors could affect that clients' performance and that client may not achieve its investment objective.

#### *Potential Conflicts of Interest*

The Leste Group has certain conflicts of interest with our clients. For example, the Leste Group is, and intends in the future to be, engaged in other business activities unrelated to the management of our clients' portfolios (including, among other things, investing for the benefit of other accounts and funds). Service Providers to our clients may also provide services to other funds and investment programs and may have similar conflict of interest. The Leste Group (or directors, if applicable) will seek to arrange for all potential conflicts of interest to be resolved fairly and in the interest of the investors. See



also “Certain Conflicts of Interest” in Item 10 – “Other Financial Industry Activities and Affiliations”.

#### Portfolio Concentration

The investment portfolio of certain clients may not be diversified by industry, return characteristics, geography, local market drivers or otherwise. There are generally no mandatory restrictions for our clients regarding diversification of the investments, either by geographic region, industry, country, sector or asset type. For other clients, such as Leste Funds pursuing a real estate strategy, the investments are per such fund’s mandate concentrated in one specific industry, sector and/or geography. As a result, our clients’ portfolio may include a small number of large positions and/or concentrations in particular industries, countries, geographies, sectors or groups or financial or economic market. If our clients’ investments are concentrated in a few issuers or industries, any adverse change in the condition (financial or otherwise) of one or more of such issuers or industries could have a material adverse effect on our clients’ investments. While portfolio concentration may enhance total returns to investors, if any large position has a material loss, returns to investors may be lower than if our clients maintained a broader diversification, and investors may suffer significant losses as a result.

#### No Current Income

The investment policies of our clients should be considered speculative, as there can be no assurance that the Leste Group’s assessments of the short-term or long-term prospects of investments will generate a profit. In view of the fact that our clients will likely not pay dividends, an investment in our clients are not suitable for investors seeking current income for financial or tax planning purposes.

#### Liquidity Risk of Investments

Not all securities or instruments invested in by our clients will be listed or rated and consequently liquidity may be low. Moreover, the accumulation and disposal of holdings in some investments may be time consuming and may need to be conducted at



unfavorable prices. Our clients may also encounter difficulties in disposing of assets at their fair price due to adverse market conditions leading to limited liquidity.

#### Limited Liquidity for Investors

An investment in our clients is generally suitable only for sophisticated investors that have no need for immediate liquidity in their investment. The consent of our clients must be obtained prior to any transfer of interests and/or shares. In light of the restrictions imposed on a transfer of interests and/or shares, and in light of the limitations imposed on the investor's ability to redeem all or a portion of their interests and/or shares, an investment in our clients should be viewed as illiquid and subject to risk. The Leste Group (or relevant directors, if applicable) may suspend redemption rights, in whole or in part, if any situation shall arise that, in their own judgment, would render a valuation or disposition of our clients' assets impracticable or seriously detrimental to the relevant investor. Such limitations on liquidity must be considered significant.

#### Leverage

Certain clients may make margin purchases of securities and, in connection with these purchases, borrow money from brokers and banks for investment purposes. This practice, which is known as "leverage", is speculative and involves certain risks. The use of leverage will allow certain of our clients to make additional investments, thereby increasing its exposure to assets, such that its total assets may be greater than its capital. However, leverage will also magnify the volatility of changes in the value of such clients' portfolio. The effect of the use of leverage by our clients in a market that moves adversely to its investments could result in substantial losses to our clients, which would be greater than if our client were not leveraged. In addition, our clients may borrow money for cash management purposes, to fund the redemption or withdrawal of shares and/or interests or for other temporary purposes. The use of leverage by our clients may increase the volatility of our clients. The instruments and borrowings utilized by certain of our clients to leverage investments may be collateralized by all or a portion of our clients' portfolio. Accordingly, certain of our clients may pledge its securities in order to borrow or otherwise obtain leverage for investment or other purposes. Should the securities pledged to brokers to secure such clients' margin accounts decline in value, our clients could be subject to a "margin call", pursuant to which our clients must either



deposit additional funds or securities with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. The banks and dealers that provide financing to our clients can apply essentially discretionary margin, “haircut”, financing and collateral valuation policies. Changes by counterparties in any of the foregoing may result in large margin calls, loss of financing and forced liquidations of positions at disadvantageous prices. Lenders that provide other types of asset-based or secured financing to our clients may have similar rights. There can be no assurance that our clients will be able to secure or maintain adequate financing. Borrowings will be subject to interest, transaction and other costs, and other types of leverage also involve transaction and other costs. Any such costs may or may not be recovered by the return on our clients’ portfolio.

#### *Dependence on Service Providers*

Certain clients are also dependent upon its counterparties and the businesses that are not controlled by the Leste Group that provide services to our clients (the “Service Providers”). Examples of Service Providers include the administrator, prime brokers, custodian, legal counsel and the auditors. Errors are inherent in the business and operations of any business, and although the Leste Group will adopt measures to prevent and detect errors by, and misconduct of, counterparties and Service Providers, and transact with counterparties and Service Providers it believes to be reliable, such measures may not be effective in all cases. Errors or misconduct could have a material adverse effect on our clients and the underlying investors therein.

#### *Counterparty Risk*

Certain clients expect to establish relationships to obtain financing, derivative intermediation and prime brokerage services that permit such clients to trade in any variety of markets or asset classes over time. However, there can be no assurance that our clients will be able to establish or maintain such relationships. An inability to establish or maintain such relationships could limit such clients’ trading activities, create losses, preclude our clients from engaging in certain transactions or prevent our clients from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships could have a significant impact on our clients’ business due to our clients’



reliance on such counterparties. If there is a default by a counterparty, our client under most normal circumstances will have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in the net asset value of our clients being less than if such clients had not entered into the transaction. Furthermore, there is a risk that any of such counterparties could become insolvent and/or the subject of insolvency proceedings. In such case, the recovery of our clients' securities from such counterparty or the payment of claims therefor may be significantly delayed and our clients may recover substantially less than the full value of the securities entrusted to such counterparty. In addition, there are a number of proposed rules that, if they were to go into effect, may impact the laws that apply to insolvency proceeding and may impact whether the applicable client may terminate its agreement with an insolvent counterparty. Collateral that our clients posts to its counterparties that is not segregated with a third party custodian may not have the benefit of customer-protected "segregation" of such funds. In the event that a counterparty were to become insolvent, our clients may become subject to the risk that it may not receive the return of its collateral or that the collateral may take some time to return. In addition, certain of our clients may use counterparties located in jurisdictions outside the United States. Such local counterparties usually are subject to laws and regulations in non-U.S. jurisdictions that are designed to protect customers in the event of their insolvency. However, the practical effect of these laws and their application to our clients' assets are subject to substantial limitations and uncertainties. Because of the range of possible factual scenarios involving the insolvency of a counterparty and the potentially large number of entities and jurisdictions that may be involved, it is impossible to generalize about the effect of such an insolvency on our clients and its assets. Investors should assume that the insolvency of any such counterparty would result in significant delays in recovering our clients' securities from or the payment of claims therefor by such counterparty and a loss to our clients, which could be material.

#### *Investment and Due Diligence Process*

Before making investments, the Leste Group will conduct due diligence that it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, the Leste Group may be required to evaluate important and complex business, financial, tax, accounting and legal issues.



When conducting due diligence and making an assessment regarding an investment, the Leste Group will rely on the resources reasonably available to it, which in some circumstances, whether or not known to the Leste Group at the time, may not be sufficient, accurate, complete or reliable. Due diligence may not reveal or highlight matters that could have a material adverse effect on the value of an investment.

### *Suspensions of Trading*

Each securities exchange typically has the right to suspend or limit trading in all securities which it lists. Such a suspension would render it impossible for our clients to determine their net asset value, liquidate positions and, accordingly, could expose each client to losses which, in a worst case scenario, could wipe out part or all of such client's net asset value.

### *Valuation of Investments*

Valuation of the securities and other investments held by each client may involve uncertainties and judgmental determinations, and if such valuations should prove to be incorrect, the net asset value of such client could be adversely affected. Independent pricing information may not at times be available regarding certain of such securities and other investments. Certain clients may have some of its assets in investments, which by their very nature may be extremely difficult to accurately value. To the extent that the value assigned by our clients to any such investment differs from the actual value, the net asset value may be understated or overstated, as the case may be. For example, in relation to investment funds or vehicles the Leste Group (or applicable Service Provider) may rely solely on the valuations provided by valuation agents of such vehicles. Valuations provided by such vehicles may be subject to adjustments. Furthermore, with respect to any securities or investments which are illiquid, not traded on an exchange or in an established market, or for which no value can be readily assigned, the Leste Group (or applicable Service Provider) will assign such fair value subsequent to the determination of the net asset value. The valuations may not be indicative of what actual fair market value would be in an active, liquid or established market. Notwithstanding that valuations may be subject to adjustments, our clients will not make any corresponding adjustments to its net asset value in so far as it applies to the subscription price for interests and/or shares in our clients. Accordingly, there is a





risk that an investment in our clients by a new investor (or an additional investment by an existing investor) could dilute the value of such investments for the other investors if the designated value of such investments is higher than the value designated by our clients. Further, there is a risk that a new investor (or an existing investor that makes an additional investment) could pay more than it might otherwise pay if the actual value of such investments is lower than the value designated by our clients. In no event shall the Leste Group (or relevant Service Provider) incur any individual liability or responsibility for any determination made or other action taken or omitted by them in the absence of bad faith or manifest error.

#### *Market Risk*

Some of the exchanges in which our client may invest (directly or through underlying funds) may be less well-regulated than those in developed markets and may prove to be illiquid, insufficiently liquid or highly volatile from time to time. This may affect the price at which a client may liquidate positions to meet redemption requests or other funding requirements.

#### *Competition; Availability of Investments*

Certain markets in which our clients may invest are extremely competitive for attractive investment opportunities. As a result, there can be no assurance that the Leste Group will be able to identify or successfully pursue attractive investment opportunities in such environments.

#### *Business and Regulatory Risks*

Legal, tax and regulatory changes could occur during the term of our clients that may adversely affect them. The regulatory environment applicable to our clients are evolving, and changes in regulation may adversely affect the value of investments held by our clients. In addition, securities markets are subject to comprehensive statutes and regulations. Regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The effect of any future regulatory changes on our clients could be substantial and adverse. Such regulatory changes may impose administrative burdens on the Leste Group, including





responding to examinations and other regulatory inquiries and implementing policies and procedures. Such administrative burdens may divert the Leste Group's time, attention and resources from portfolio management activities to responding to inquiries, examinations and enforcement actions (or threats thereof). Regulatory inquiries often are confidential in nature, may involve a review of an individual's or a firm's activities or may involve studies of the industry or industry practices, as well as the practices of a particular institution.

#### *Exchange Control and Repatriation Risk*

It may not be possible for clients to repatriate capital, dividends, interest and other income from certain countries, or it may require government consents to do so. Clients could be adversely affected by the introduction of, or delays in, or refusal to grant any such consent for the repatriation of funds or by any official intervention affecting the process of settlement of transactions. Economic or political conditions could lead to the revocation or variation of consent granted prior to investment being made in any particular country or to the imposition of new restrictions.

#### *Political, Regulatory, Settlement and Sub-Custodial Risk*

The value of a client's assets may be affected by uncertainties such as international political developments, changes in government policies, changes in taxation, restrictions on foreign investment and currency repatriation, currency fluctuations and other developments in the laws and regulations of countries in which investment may be made. Furthermore, the legal infrastructure and accounting, auditing and reporting standards in certain countries in which investment may be made may not provide the same degree of investor protection or information to investors as would generally apply in major securities markets. As some of our clients may invest in markets where the trading, settlement and custodial systems are not fully developed, the assets of a client which are traded in such markets and which have been entrusted to sub-depositaries in such markets may be exposed to risk in circumstances in which the primary depositary will have no liability.



### Leste Group Valuation Risk

Certain clients will hold positions in non-marketable investments or other investments for which independent quotations are unavailable or are not reliable indications of the fair value of our clients' positions. The Leste Group is permitted to value such positions in its discretion, and our clients are not required to obtain independent appraisals or valuations of any such positions, except when required for the production of the audited financial statements. As the fee that will be paid to the Leste Group as described in Item 5 "Fees and Compensation" is based on each of our clients' net asset value, the Leste Group is subject to a conflict of interest in valuing portfolio investments.

### Cyber Security Risk

The Leste Group and its Service Providers are susceptible to operational and information security and related risks of cyber security incidents. In general, cyber incidents can result from deliberate attacks or unintentional events. Cyber security attacks include, but are not limited to, gaining unauthorized access to digital systems (e.g., through "hacking" or malicious software coding) for purposes of misappropriating assets or sensitive information, corrupting data or causing operational disruption. Cyber-attacks also may be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on websites (i.e., efforts to make services unavailable to intended users). Cyber security incidents affecting the Leste Group or Service Providers have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, including by interference with a client's ability to calculate its net asset value; impediments to trading for a client's portfolio; the inability of investors to transact business with the Leste Group; violations of applicable privacy, data security or other laws; regulatory fines and penalties; reputational damage; reimbursement or other compensation or remediation costs; legal fees; or additional compliance costs. Similar adverse consequences could result from cyber security incidents affecting issuers of securities in which a client invests, counterparties with which a client engages in transactions, governmental and other regulatory authorities, exchange and other financial market operators, banks, brokers, dealers, insurance companies and other financial institutions and other parties. The techniques used to obtain unauthorized access to data, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of



time. Hardware or software acquired from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Network connected services provided by third parties to the Leste Group may be susceptible to compromise, leading to a breach of the Leste Group's network. The Leste Group's systems or facilities may be susceptible to employee error or malfeasance, government surveillance, or other security threats. On-line services provided by the Leste Group to the investors may also be susceptible to compromise. Breach of the Leste Group's information systems may cause information relating to the transactions of our clients and personally identifiable information of the investors to be lost or improperly accessed, used or disclosed. While information risk management systems and business continuity plans have been developed which are designed to reduce the risks associated with cyber security, there are inherent limitations in any cyber security risk management systems or business continuity plans, including the possibility that certain risks have not been identified.

#### *Governmental Interventions*

Extreme volatility and illiquidity in markets has in the past led to, and may in the future lead to, extensive governmental interventions in equity, credit and currency markets. Generally, such interventions are intended to reduce volatility and precipitous drops in value. In certain cases, governments have intervened on an "emergency" basis, suddenly and substantially eliminating market participants' ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition, these interventions have typically been unclear in scope and application, resulting in uncertainty. It is impossible to predict when these restrictions will be imposed, what the interim or permanent restrictions will be and/or the effect of such restrictions on our clients' strategies.

#### *Potential Interest Rate Increases*

The United States has experienced a decade-long period of historically low interest rate levels. Recently, however, short-term and long-term interest rates have begun to rise. The recovery of the U.S. economy, recent changes in U.S. government policy, including the tapering of the U.S. Federal Reserve Board's quantitative easing program, and increases in the federal funds rate, increase the risk that interest rates will rise in the



future. Any future interest rate increases may result in periods of volatility and cause the value of the fixed income securities held by our clients to decrease, which may result in substantial withdrawals from our clients that, in turn, force our clients to liquidate such securities at disadvantageous prices negatively impacting the performance of our clients.

### *Litigation Risk*

Some of the tactics that the Leste Group may use involve litigation. Our clients could be a party to lawsuits either initiated by it, or by a company in which our clients invests, other shareholders of such company, or U.S. federal, state and non-U.S. governmental bodies. There can be no assurance that any such litigation, once begun, would be resolved in favor of our clients.

### *Non-U.S. Investments*

Certain clients may trade on exchanges or markets located outside the U.S., especially, but not limited to, in Brazil, other Latin American markets and Europe. See for further details also "Risks Related to Investments in Brazil" below.

Trading on such exchanges or markets is not regulated by the SEC and the CFTC and may, therefore, be subject to more risks than trading on U.S. exchanges, such as the risks of exchange controls, expropriation, burdensome taxation, moratoria and political or diplomatic events. Risks in investments in non-U.S. securities may also include reduced and less reliable information about issuers and markets, less stringent accounting standards, illiquidity of securities and markets, higher brokerage commissions and custody fees. Investing in the securities of companies (and, from time to time, governments) outside of the United States involves certain considerations not usually associated with investing in securities of U.S. companies or the U.S. government, including political and economic considerations, such as greater risks of expropriation, nationalization, confiscatory taxation, imposition of withholding or other taxes on interest, dividends, capital gains, other income or gross sale or disposition proceeds, limitations on the removal of assets and general social, political and economic instability; the relatively 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;



the evolving and unsophisticated laws and regulations applicable to the securities and financial services industries of certain countries; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict our clients' investment opportunities. In addition, accounting and financial reporting standards that prevail outside of the U.S. generally are not as high as U.S. standards and, consequently, less information is typically available concerning companies located outside of the U.S. than for those located in the U.S. As a result, our clients may be unable to structure its transactions to achieve the intended results or to mitigate all risks associated with such markets. In particular, in certain countries, our clients could experience significant legal difficulties and impediments in enforcing its rights with respect to its investments and/or certain kinds of collateral underlying such investments. It may therefore be more difficult for our clients to pursue claims or obtain effective enforcement of its rights by legal or arbitration proceedings in such countries than in countries with more mature legal systems. These factors may, among other things, adversely affect the value and performance of our clients' investments in such countries.

#### Latin America

Governments in Latin America frequently intervene in the economies of their respective countries and occasionally make significant changes in policy and regulations. Governmental actions to control inflation and other policies and regulations have often involved, among other measures, price controls, currency devaluations, capital controls and limits on imports. The businesses, financial condition, results of operations and prospects of the companies in which our clients invest may be adversely affected by changes in government policies or regulations, including such factors as exchange rates and exchange control policies; inflation rates; interest rates; tariff and inflation control policies; price control policies; import duties on information technology equipment; liquidity of domestic capital and lending markets; electricity rationing; tax policies, including royalty, tax increases and retroactive tax claims; and other political, diplomatic, social and economic developments in or affecting the countries where such companies operate. An eventual reduction of foreign investment in any of the countries where such companies operate may have a negative impact on such countries' economies, affecting interest rates and the ability of the companies meet their obligations.



### Emerging Markets

The risks associated with investing in non-U.S. securities may be greater with respect to those issued by companies located in emerging industrialized or less developed countries. Risks particularly relevant to emerging markets may include higher dependence on exports and the corresponding importance of international trade, greater risk of inflation, greater controls on foreign investment and limitations on repatriation of invested capital, increased likelihood of governmental involvement in and control over the economies, governmental decisions to cease support of economic reform programs or to impose centrally planned economies, and less developed corporate laws regarding fiduciary duties of officers and directors and protection of investors.

### Currency Exchange Exposure

Certain clients may invest in securities denominated in currencies other than the U.S. dollar. Certain clients, however, value their securities in U.S. dollars. Such clients may or may not seek to hedge its non-U.S. currency exposure by entering into currency hedging transactions. There can be no guarantee that securities suitable for hedging currency or market shifts will be available at the time when our clients wishes to use them, or that hedging techniques employed by such clients will be effective. Furthermore, certain currency market risks may not be fully hedged or hedged at all. To the extent unhedged, the value of our clients' positions denominated in currencies other than the U.S. dollar will fluctuate with U.S. dollar exchange rates as well as with the price changes of the investments in the various local markets and currencies.

### Co-Investments with Third Parties

Our clients may co-invest with third parties through jointly-owned acquisition vehicles, partnerships, joint ventures or other structures. In such situations, our clients' ability to control its investments will depend upon the nature of the joint investment arrangements with such partners and our clients' relative ownership stake in such investments. Our clients may be a minority investor in these circumstances. In addition, such arrangements may restrict our clients' ability to dispose of its investments for potentially significant periods of time. Such investments may involve risks not present in



investments where a third party is not involved. A co-venturer or partner of our clients may at any time have economic or business interests or goals which are inconsistent with those of our clients and may be in a position to take (or block) action inconsistent with our clients' investment objectives. Our clients may be liable for certain actions of its co-venturers or partners. Co-investments may also involve higher costs than other investments. Co-venturers or partners potentially may include certain investors. Co-investors will typically bear their *pro rata* share of fees, costs and expenses related to the discovery, investigation, development, acquisition or consummation, ownership, maintenance, monitoring, hedging and disposition of their co-investments and may be required to pay their *pro rata* share of fees, costs and expenses related to potential investments that are not consummated, such as broken deal expenses (including "reverse" breakup fees). Leste Group endeavors to allocate such fees, costs and expenses on a fair and equitable basis. Notwithstanding the foregoing, co-investors may not agree to pay or otherwise bear fees, costs and expenses related to unconsummated co-investments. In addition, in certain circumstances, co-investors may not bear such fees, costs and expenses because they have not yet been identified (or their anticipated allocation has not yet been identified) as of the time such potential investment ceases to be pursued or are not yet committed to such potential investment. In those events, such fees, costs and expenses will be considered operating expenses of and be borne by our clients.

### *Special Situations*

Certain clients may have investments (directly or indirectly) in entities involved in (or the target of) acquisition attempts or tender offers or companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. In any investment opportunity involving any such type of business enterprise, there exists the risk that the transaction in which such business enterprise is involved either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price of the security or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, the investment may need to be sold at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled entities in which our clients may invest (directly or indirectly), there is a potential risk of loss of the entire investment in such entities.





## **Risks Associated with Liquid Strategy**

### **Highly Volatile Markets**

For Leste Funds that pursue a liquid investment strategy (i.e., Leste Global Investments), the prices of securities and commodities contracts and all derivative instruments, including futures and options, can be highly volatile. Price movements of forward, futures and other derivative contracts in which such clients' 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, particularly those in currencies, financial instruments, futures and options. Intervention often is intended directly to influence prices and may, together with other factors, cause all such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. Such clients also are subject to the risk of the failure of any exchanges on which its positions trade or of their clearinghouses.

### **Risks of Securities Activities**

All securities investing and trading activities risk the loss of capital. Although the Leste Group will attempt to moderate these risks, no assurance can be given that our clients' investment activities will be successful or that investors will not suffer losses. To the extent that a client's portfolio is concentrated in securities of a single issuer or issuers in a single industry, the risk of any investment decision made by the Leste Group is increased.

### **Convertible Securities**

A convertible security held by certain clients 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 client is called for redemption, our clients 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 our clients' ability to achieve its investment objective.

### Derivatives

Our clients may invest in, or enter into, derivatives or derivatives transactions ("**derivatives**"). Derivatives are financial instruments that derive their performance, at least in part, from the performance of an underlying asset, index or interest rate. Derivatives entered into by our clients can be volatile and involve various types and degrees of risk, depending upon the characteristics of a particular derivative and a portfolio as a whole. Derivatives permit the Leste Group to increase or decrease the level of risk of an investment portfolio, or change the character of the risk, to which an investment portfolio is exposed in much the same way as the manager can increase or decrease the level of risk, or change the character of the risk, of an investment portfolio by making investments in specific securities. Derivatives may entail investment exposures that are greater than their cost would suggest, meaning that a small investment in derivatives could have a large potential effect on performance of our clients. Our clients' use of derivatives may include swaps, forwards, options and futures. If a client invests in derivatives at inopportune times or incorrectly judges market conditions, the investments may lower the return of our clients or result in a loss. Our clients also could experience losses if derivatives are poorly correlated with its other investments, or if a client is unable to liquidate the position because of an illiquid secondary market. The market for some derivatives is, or suddenly can become, illiquid. Changes in liquidity may result in significant, rapid and unpredictable changes in the prices for derivatives. There are many rules related to derivatives that may negatively impact our clients, such as requirements related to recordkeeping, reporting, portfolio reconciliation, central clearing, minimum margin for uncleared over-the-counter ("**OTC**") instruments and mandatory trading on electronic facilities, and other transaction-level obligations. Parties that act as dealers in swaps, are also subject to extensive business conduct standards, additional "know your counterparty" obligations, documentation standards and capital requirements. All of these requirements add costs to the legal, operational and compliance obligations of the Leste Group and our clients, and increase the amount of time that the Leste Group spends on non-investment-related activities. Requirements such as these also raise the costs of entering into derivative transactions, and these increased costs will likely be passed on to our clients. These rules are



operationally and technologically burdensome for the Leste Group and our clients. These compliance obligations require employee training and use of technology, and there are operational risks borne by our clients in implementing procedures to comply with many of these additional obligations. These regulations may also result in our clients forgoing the use of certain trading counterparties (such as broker-dealers and futures commission merchants (“**FCMs**”)), as the use of other parties may be more efficient for our clients from a regulatory perspective. However, this could limit our clients’ trading activities, create losses, preclude our clients from engaging in certain transactions or prevent our clients from trading at optimal rates and terms. Many of these requirements were implemented pursuant to the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (the “**Dodd-Frank Act**”), the EU Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (known as the European Market Infrastructure Regulation, or “**EMIR**”) and similar regulations globally. In the United States, the Dodd-Frank Act divides the regulatory responsibility for derivatives between the SEC and the CFTC, a distinction that does not exist in any other jurisdiction. The SEC has regulatory authority over “security-based swaps” and the CFTC has regulatory authority over “swaps”. EMIR is being implemented in phases through the adoption of delegated acts by the European Commission. As a result of the SEC and CFTC bifurcation and the different pace at which the SEC, the CFTC, the European Commission and other international regulators have promulgated necessary regulations, different transactions are subject to different levels of regulation. Though many rules and regulations have been finalized, there are others, particularly SEC regulations with respect to security-based swaps and EMIR regulations, that are still in the proposal stage or are expected to be introduced in the future.

### Options and Futures

Certain clients may utilize options and futures contracts and so-called “synthetic” options or other derivatives written by broker-dealers or other permissible financial intermediaries. Options transactions may be effected on securities exchanges or in the over-the counter market. When options are purchased over-the-counter, a client bears the risk that the counterparty that wrote the option will be unable or unwilling to perform its obligations under the option contract. Options may also be illiquid and, in such cases, our clients may have difficulty closing out its position. Over-the-counter options also may include options on baskets of specific securities. Our clients may purchase call and



put options on specific securities, and may write and sell covered or uncovered call and put options for hedging purposes in pursuing its investment objective. A put option gives the purchaser of the option the right to sell, and obligates the writer to buy, the underlying security at a stated exercise price, typically at any time prior to the expiration of the option. A call option gives the purchaser of the option the right to buy, and obligates the writer to sell, the underlying security at a stated exercise price, typically at any time prior to the expiration of the option. A covered call option is a call option with respect to which the seller of the option owns the underlying security. The sale of such an option exposes the seller during the term of the option to possible loss of opportunity to realize appreciation in the market price of the underlying security or to possible continued holding of a security that might otherwise have been sold to protect against depreciation in the market price of the security. A covered put option is a put option with respect to which cash or liquid securities have been placed in a segregated account on the books of or with a custodian to fulfill the obligation undertaken. The sale of such an option exposes the seller during the term of the option to a decline in price of the underlying security while depriving the seller of the opportunity to invest the segregated assets. Our clients may close out a position when writing options by purchasing an option on the same security with the same exercise price and expiration date as the option that it has previously written on the security. In such a case, our clients will realize a profit or loss if the amount paid to purchase an option is less or more than the amount received from the sale of the option. Our clients may enter into futures contracts in U.S. markets or on exchanges located outside the United States. Non-U.S. markets may offer advantages such as trading opportunities or arbitrage possibilities not available in the United States. Non-U.S. markets, however, may have greater risk potential than U.S. markets. For example, some non-U.S. exchanges are principal markets so that no common clearing facility exists and an investor may look only to the broker for performance of the contract. In addition, any profits realized could be eliminated by adverse changes in the exchange rate, or our clients could incur losses as a result of those changes. Transactions on non-U.S. exchanges may include both commodities that are traded on U.S. exchanges and those that are not. Such non-U.S. commodity exchanges may offer different or diminished protections to our clients. Engaging in transactions in futures contracts involves risk of loss to our clients including total net asset value loss. No assurance can be given that a liquid market will exist for any particular futures contract at any particular time. Many futures exchanges and boards of trade limit the amount of fluctuation permitted in futures contract prices during



a single trading day. Once the daily limit has been reached in a particular contract, no trades may be made that day at a price beyond that limit or trading may be suspended for specified periods during the trading day. Futures contract prices could move to the limit for several consecutive trading days with little or no trading, preventing prompt liquidation of futures positions and potentially subjecting our clients to substantial losses. Successful use of futures also is subject to the Leste Group's ability to predict correctly movements in the direction of the relevant market, and, to the extent the transaction is entered into for hedging purposes, to determine the appropriate correlation between the transaction being hedged and the price movements of the futures contract. In addition, while some futures contracts are cash settled, there are others, such as some futures contracts on commodities, bonds and currencies that are physically settled. In some circumstances, our clients may have to physically settle a future contract and, in this scenario, the cost to close the position can be extremely high and cause severe or total damage to our client's net asset value.

#### *Bonds and Other Fixed Income Securities*

Certain clients may invest in bonds and other fixed income securities, both U.S. and non-U.S., and may take short positions in these securities. Our clients will invest in these securities when they offer opportunities for capital appreciation (or capital depreciation in the case of short positions) and may also invest in these securities for temporary defensive purposes and to maintain liquidity. Fixed income securities include, among other securities: bonds, notes and debentures issued by U.S. and non-U.S. corporations; U.S. Government securities or debt securities issued or guaranteed by a non-U.S. government; municipal securities; and mortgage-backed and asset backed securities. These securities may pay fixed, variable or floating rates of interest, and may include zero coupon obligations. Fixed income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (i.e., credit risk) and are subject to price volatility resulting from, among other things, interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (i.e., market risk). Our clients may invest in both investment grade debt securities and non-investment grade debt securities. In addition, our clients may also invest in non-rated bonds or other non-rated fixed income securities. Non-investment grade debt securities in the lowest rating categories may involve a substantial risk of default or may be in default. Adverse changes in economic conditions or developments



regarding the individual issuer are more likely to cause price volatility and weaken the capacity of the issuers of non-investment grade debt securities to make principal and interest payments than issuers of higher grade debt securities. An economic downturn affecting an issuer of non-investment grade debt securities may result in an increased incidence of default. In addition, the market for lower grade debt securities may be thinner and less active than for higher grade debt securities.

### Equity Securities

Certain clients may hold long and short positions in common stocks, preferred stocks and convertible securities of U.S. and non-U.S. issuers. Our clients may also invest in depositary receipts or shares relating to non-U.S. securities. Equity securities fluctuate in value, often based on factors unrelated to the fundamental economic condition of the issuer of the securities, including general economic and market conditions, and these fluctuations can be pronounced. Our clients may purchase securities in all available securities trading markets and may invest in equity securities without restriction as to market capitalization, such as those issued by smaller capitalization companies, including micro-cap companies. Our clients may also invest in equities indirectly by using swaps, and thus bearing the additional risks related to this instrument.

### Illiquid Securities

Certain securities may be illiquid because, for example, they are subject to legal or other restrictions on transfer or there is no liquid market for such securities. Valuation of such securities may be difficult or uncertain because there may be limited information available about the issuers of such securities. The market prices, if any, for such securities tend to be volatile and may not be readily ascertainable, and our clients may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Our clients may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. As a result, our clients may be required to hold such securities despite adverse price movements.



Even those markets which the Leste Group expects to be liquid can experience periods, possibly extended periods, of illiquidity. Occasions have arisen in the past where previously liquid investments have rapidly become illiquid.

### *Event-Driven Investing*

The success of clients pursuing an event-driven investment strategy depends upon the Leste Group's ability to make predictions about (i) the likelihood that an event will occur and (ii) the impact such event will have on the value of a company's securities. If the event fails to occur or it does not have the effect foreseen, losses can result. For example, the adoption of new business strategies or completion of asset dispositions or debt reduction programs by a company may not be valued as highly by the market as the Leste Group had anticipated, resulting in losses. In addition, a company may announce a plan of restructuring which promises to enhance value, but fail to implement it, which can result in losses to investors. In liquidations and other forms of corporate reorganization, the risk exists that the reorganization either will be unsuccessful, will be delayed or will result in a distribution of cash or a new security, the value of which will be less than the purchase price to the applicable client of the security in respect of which such distribution was made.

The consummation of mergers and tender and exchange offers can be prevented or delayed by a variety of factors, including: (i) opposition of the management or stockholders of the target company, which will often result in litigation to enjoin the proposed transaction; (ii) intervention of a federal or state regulatory agency in the United States or other jurisdiction; (iii) efforts by the target company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) in the case of a merger, failure to obtain the necessary stockholder approvals; (v) market conditions resulting in material changes in securities prices; (vi) compliance with any applicable federal or state securities laws in the United States or other jurisdiction; and (vii) inability to obtain adequate financing. Because of the inherently speculative nature of event-driven investing, the results of our clients' operations may be expected to fluctuate from period to period. Accordingly, investors should understand that the results of a particular period will not necessarily be indicative of results that may be expected in future periods.



### Capital Structure Arbitrage

The success of clients pursuing a capital structure arbitrage strategy depends upon the Leste Group's ability to identify and exploit the relationships between movements in different securities within an issuer's capital structure (including, bank debt, convertible and non-convertible senior and subordinated debt and preferred and common stock). Identification and exploitation of these opportunities involve uncertainty. There can be no assurance that the Leste Group will be able to locate investment opportunities or to correctly exploit price discrepancies. A reduction in the pricing inefficiency of the markets in which our clients will seek to invest will reduce the scope for our clients' investment strategies. In the event that the perceived mispricing underlying our clients' positions fail to materialize, these investment strategies could be unsuccessful or result in losses.

### Convertible Arbitrage

The success of clients pursuing a convertible arbitrage strategy depends upon the Leste Group's ability to identify convertible securities that appear incorrectly valued relative to their theoretical value, purchase (or sell short) such a convertible security and sell short (or purchase) the underlying security for which the convertible security can be exchanged to exploit price differentials. There can be no assurance that the Leste Group will be able to identify convertible arbitrage opportunities or that changes in price differentials will not cause losses. Borrowing and lending against such investments involves substantial risks. The prices of these investments can be volatile, market movements are difficult to predict, and financing sources and related interest and exchange rates are subject to rapid change. Certain corporate securities may be subordinated (and thus exposed to the first level of default risk) or otherwise subject to substantial credit risks.

### Investment in Small Companies

There are no minimum requirements as to the size or operating experience of the issuers or obligors in which our clients may invest. Portfolio investments made to some of those issuers or obligors may involve a number of risks, including (but not limited to) the following: (i) these issuers or obligors may become unable to meet their obligations,





which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of our clients realizing any guarantees it may have obtained in connection with the related investment; (ii) these issuers or obligors may generally have less predictable operating results, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position; (iii) these issuers or obligors may have limited financial resources, may lack the ability to generate internally, or obtain externally (including difficulty accessing the capital markets to meet), the funds necessary for growth; (iv) such issuers or obligors with new products or services could sustain significant losses if projected markets do not materialize; (v) these issuers or obligors may have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which may render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns; (vi) these issuers or obligors may depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on the related investment; and (vii) investments involving these issuers or obligors may be evidenced by privately-negotiated documentation not based on any particular industry standard.

### Short Sales

Certain clients attempt to limit its exposure to a possible market decline in the value of its portfolio securities through short sales of securities that the Leste Group believes to possess volatility characteristics similar to those being hedged. Our clients may also use short sales for non-hedging purposes to pursue its investment objectives if, in the Leste Group's view, the security is over-valued. Short selling is speculative in nature and, in certain circumstances, can substantially increase the effect of adverse price movements on our clients. A short sale of a security involves the risk of an unlimited increase in the market price of the security that can in turn result in an inability to cover the short position and a theoretically unlimited loss. There is the risk that the securities borrowed by our clients in connection with a short sale would need to be returned to the securities lender on little notice. If such request for return of securities occurs at a time when other short sellers of the subject security are receiving similar requests, a "short squeeze" can occur, wherein our clients might be compelled, at a disadvantageous time, to replace borrowed securities previously sold short with purchases on the open





market, possibly at prices significantly in excess of the proceeds received earlier. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. In addition, there may be circumstances, such as corporate events, when our client will not be able to return to the original lender the security sold short. Under these circumstances, the position will usually be closed by entering in an indemnification agreement with the lender. The cost of such indemnification ("cash settlement") can be extraordinarily high and, in some cases, could generate a total and permanent loss of the relevant client's net asset value. Our clients may make "short sales against-the-box," in which it will sell short securities it owns or has the right to obtain without payment of additional consideration. Our clients will incur transaction costs, including interest expenses, in connection with initiating, maintaining and closing short sales against-the-box. Short strategies can also be implemented synthetically through various instruments and be used with respect to indices or in the over-the-counter market and with respect to futures and other instruments. In some cases of synthetic short sales, there is no floating supply of an underlying instrument with which to cover or close out a short position and our clients may be entirely dependent on the willingness of over-the-counter market makers to quote prices at which the synthetic short position may be unwound. There can be no assurance that such market makers will be willing to make such quotes. Short strategies can also be implemented on a leveraged basis. Lastly, even though the client secures a "good borrow" of the security sold short at the time of execution, the lending institution may recall the lent security at any time, thereby forcing our clients to purchase the security at the then-prevailing market price, which may be higher than the price at which such security was originally sold short by our client.

### Securities Lending Risk

As with any extensions of credit, there are risks of delay and recovery. Should the borrower of securities fail financially or default in any of its obligations under any securities lending transaction, the collateral provided in connection with such transaction will be called upon. The value of the collateral will be maintained to equal or exceed the value of the securities transferred. However, there is a risk that the value of the collateral may fall below the value of the securities transferred. In addition, as a client may invest cash collateral received a client investing collateral will be exposed to



the risk associated with such investments, such as failure or default of the issuer of the relevant security.

*Significant Positions in Securities; Regulatory Requirements*

In the event our client acquires a significant stake in certain issuers of securities and such stake exceeds certain percentage or value limits, our clients may be subject to regulation and regulatory oversight that may impose notification and filing requirements or other administrative burdens on our clients and the Leste Group. Any such requirements may impose additional costs on our clients and may delay the acquisition or disposition of the securities or our clients' ability to respond in a timely manner to changes in the markets with respect to such securities. In addition, "position limits" may be imposed by various regulators that may limit our clients' ability to effect desired trades. Position limits are the maximum amounts of gross, net long or net short positions that any one person or entity may own or control in a particular issuer's securities. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. To the extent that our clients' position limits were aggregated with an affiliate's position limits, the effect on our clients and resulting restriction on its investment activities may be significant. If at any time positions managed by the Leste Group were to exceed applicable position limits, the Leste Group would be required to liquidate positions, which might include positions of our clients, to the extent necessary to come within those limits. Further, to avoid exceeding any position limits, our clients might have to forego or modify certain of its contemplated trades. In addition, if our clients, acting alone or as part of a group, acquires beneficial ownership of more than 10% of a certain class of securities of a public company or places a director on the board of directors of such a company, under Section 16 of the Exchange Act, our clients may be subject to certain additional reporting requirements and may be required to disgorge certain short-swing profits arising from purchases and sales of such securities. Furthermore, in such circumstances our clients will be prohibited from entering into a short position in such issuer's securities, and therefore limited in its ability to hedge such investments. Similar restrictions and requirements may apply in non-U.S. jurisdictions.



### Investment in other Funds and/or Managed Accounts

Certain clients may seek to profit from investing part or all of its assets in other funds and/or managed accounts. They can be managed or not by a Leste Group advisory affiliate and may be subject to additional management and performance fees that are charged by these investments. As any investment in funds, there can be no assurance that it will be profitable and, in a worst case scenario, significant or total loss may be incurred by our clients.

### Quantitative Analysis

There can be no assurance that the models used by the Leste Group will continue to be viable. The use of a model that is not viable or not completely viable could, at any time, have a material adverse effect on the performance of our clients. There can be no assurance that our clients will achieve their investment objectives or that the models (even if completely or partially viable) will continue to further or ultimately be capable of furthering our clients' investment objectives.

In addition, given that the systems can execute trades autonomously, undesired results may only be detected after the fact, perhaps after a significant number of transactions have occurred. Risk management techniques are based in part on the observation of historical market behavior, which may not predict market divergences that are larger than historical indicators. Also, information used to manage risks may not be accurate, complete or current, and such information may be subject to misinterpretation. In the complex environment in which the Leste Group operates, effective risk management depends upon many factors, not all of which may be properly identified, and effective assessment, analysis, process creation, control or treatment of risks could be difficult to implement. For the sake of clarity and without limitation, though losses arising from quantitative model risks could adversely affect our clients' performance, such losses would likely not constitute reimbursable trade errors under the Leste Group's policies. At times the Leste Group may manually override or shut down the operations of a quantitative model. This would generally be done in an effort to mitigate the damage from a deteriorating or malfunctioning model or a model that is reacting negatively to unforeseen market conditions. Such an override or intervention could result in greater losses than would be the case if there had been no intervention and/or could result in



the model being overridden or inactive at a time when the model would have achieved gains for the portfolio.

### *Investments in Unlisted Securities*

Although we anticipate that our clients pursuing a liquid strategy will invest primarily in publicly traded securities, such clients may invest in unlisted securities, including investments in special purpose companies, which may involve a high degree of business and financial risk that can result in substantial or total losses. Because of the possible absence of a liquid trading market for these investments, it may take longer to liquidate these positions than would be the case for publicly traded securities, or it may not be possible to liquidate these positions. Although these securities may be resold in privately negotiated transactions, the prices realized on these sales could be substantially less than those originally paid by our clients. 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.

### **Associated with Credit Strategy**

#### *Debt Instruments Generally*

Certain clients will invest predominantly in debt and credit-related instruments. Such debt may be secured or unsecured and may be structurally or contractually subordinated to substantial amounts of senior indebtedness. Moreover, such debt investments may not be protected by financial covenants or limitations upon additional indebtedness and there is no minimum credit rating for such debt investments. Other factors may materially and adversely affect the market price and yield of such debt investments, including investor demand, changes in the financial condition of the applicable issuer, government fiscal policy and domestic or worldwide economic conditions. It is likely that many of the debt instruments in which our clients may invest may be unrated, and whether or not rated, the debt instruments may have speculative characteristics. The issuers of such instruments may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal. In addition, the secondary market on which such debt instruments are traded may be less liquid than the market



for investment-grade securities, meaning such debt instruments are subject to greater liquidity risk than investment grade-securities, and it may be more difficult to hedge against the risks associated with such debt instruments. Such instruments are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations and involve major risk exposure to adverse conditions. In addition, an economic recession could severely disrupt the market for most of these instruments and may have an adverse impact on the value of such instruments. It also is likely that any such economic downturn could adversely affect the ability of the issuers of such instruments to repay principal and pay interest thereon and increase the incidence of default for such instruments. Analysis of the creditworthiness of issuers of below investment-grade and unrated debt instruments may be more complex than for issuers of higher-quality debt obligations.

### Credit Risk

One of the fundamental risks associated with clients pursuing a credit strategy is credit risk, which is the risk that an issuer will be unable to make principal and interest payments on its outstanding debt obligations when due. Such clients' return to investors would be adversely impacted if an issuer of debt securities in which our clients invests becomes unable to make such payments when due. Although our clients may make investments that the Leste Group believes are secured by specific collateral the value of which may initially exceed the principal amount of such investments, there can be no assurance that the liquidation of any such collateral would satisfy the borrower's obligation in the event of non-payment of scheduled interest or principal payments with respect to such investment, or that such collateral could be readily liquidated. In addition, in the event of bankruptcy of a borrower, our clients could experience delays or limitations with respect to its ability to realize the benefits of the collateral securing an investment. Under certain circumstances, collateral securing an investment may be released without the consent of our clients. Moreover, our clients' investments in secured debt may be unperfected for a variety of reasons, including the failure to make required filings by lenders and, as a result, our clients may not have priority over other creditors as anticipated. Certain clients may also invest in leveraged loans, high yield securities, marketable and non-marketable common and preferred equity securities and other unsecured investments, each of which involves a higher degree of risk than senior secured loans. Furthermore, our clients' right to payment and its security interest, if any,



may be subordinated to the payment rights and security interests of the senior lender. Certain of these investments may have an interest-only payment schedule, with the principal amount remaining outstanding and at risk until the maturity of the investment. In such cases, an issuer's ability to repay the principal of an investment may be dependent upon a liquidity event or the long-term success of the issuer, the occurrence of which is uncertain.

### Interest Rate Risks of Debt Securities

Certain clients' investments will expose it (directly or indirectly) to interest rate risk. Interest rate risk refers to the risks associated with market changes in interest rates. Interest rate changes may affect the value of a debt instrument indirectly (especially in the case of fixed rate securities) and directly (especially in the case of instruments whose rates are adjustable). In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors). Interest rates are highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations, fiscal deficits, trade surpluses or deficits, regulatory requirements and other factors beyond the control of our clients. Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules. This risk will be greater for long-term securities than for short-term securities. While our clients may from time to time seek to hedge such risks (including through investments in securities or derivative instruments), it may not do so actively. There is no assurance that such measures, even if implemented, will be effective.

### Loans

The investment program of clients pursuing a credit strategy includes investments in significant amounts of loans and/or participations. These obligations are subject to unique risks, including, without limitation: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-



called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; (iv) collateral posting obligations that may arise in connection with investments in revolving credit facilities or delayed draw term loans, which give rise to the risk of loss with respect to posted collateral; and (v) the risk that ownership through assignment is not feasible and our clients may be required to hold their interest via a participation, which gives rise to counterparty credit risk and limitations on the ability of our clients to directly enforce certain rights (e.g., voting rights). In analyzing each loan or participation, the Leste Group compares the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by our clients. Bank loans are frequently traded on the basis of standardized documentation which is used in order to facilitate trading and market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue or that the same documentation will be used in the future. The settlement of trading in bank loans often requires the involvement of third parties, such as administrative or syndication agents, and there presently is no central clearinghouse or authority which monitors or facilitates the trading or settlement of all bank loan trades. Often, settlement may be delayed based on the actions of any third party or counterparty, and adverse price movements may occur in the time between trade and settlement, which could result in adverse consequences for our clients. Our clients can acquire interests in loans either directly (by way of sale or assignment) or indirectly (by way of participation). The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a contracting party under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution. Participation interests in a portion of a debt obligation typically result in a contractual relationship only with the institution participating out the interest and not with the borrower. In purchasing participations, our clients typically will not have the right to vote on matters requiring a vote of holders of the underlying debt and may have no right to enforce compliance by the borrower with the terms of the loan agreement, or any rights of set-off against the borrower, and our clients may not directly benefit from the collateral supporting the debt obligation in which they have purchased the participation. As a result, if our clients were to hold a participation, they would assume the credit risk of both the borrower and the institution selling the participation to our clients. In certain circumstances, investing in the form of participation may be the





most advantageous or only route for our clients to make or hold any such investment, including in light of limitations relating to local laws or the willingness of administrative agents or borrowers to allow our clients to become direct lenders. Where our clients acquire a participation interest in a loan, the form of agreement documenting the acquisition can vary based on the contract law governing the debt. Where the contract is New York law governed, the agreement is also generally New York law governed and intended to be structured as a “true participation,” providing our clients with a beneficial ownership right in the proceeds payable in relation to the bank debt. This structure can limit our clients’ counterparty credit risk exposure against the institution selling the participation, and if the seller files for bankruptcy during the life of the agreement, the court may ring-fence proceeds related to the bank debt for the benefit of our clients. Where the contract is based under English law (or the law of another European jurisdiction), the agreement documenting the participation in many instances will be English or local law governed and structured as a derivative agreement between our clients and the institution selling the debt. This structure generally carries a higher risk for our clients because the derivative agreement grants no beneficial ownership interest in the proceeds paid to the selling institution, providing our clients with only an unsecured claim against the selling institution in the event of its bankruptcy during the life of the agreement. While the CFTC and SEC have finalized rules excluding many purchases of participation interests from the definition of “swap” or “security-based swap,” there is a risk that certain derivative agreements documenting such purchases could still satisfy either definition. A transaction could satisfy either definition (or both) if structured as an exchange of payments based on the value of interest or another rate, instrument of indebtedness, or other financial or economic interest, transferring the financial risk without also conveying a current or future direct or indirect ownership interest in an asset. If found to be a security-based swap, this will be considered a “security” for the purposes of the Securities Act, and the Exchange Act. If found to be a swap, it would be considered a “commodity interest” for purposes of the Commodity Exchange Act and if there are components of both a “swap” and a “security-based swap,” it could be considered a “mixed swap.” The implications of a derivative contract being a “security-based swap,” “swap” or “mixed swap” may result in increased regulatory requirements by the SEC, CFTC or both and could mean increased costs, liabilities and compliance risks on behalf of our clients.





### Loan Origination

Certain clients may acquire and/or originate loans and/or other debt instruments (or pools thereof) with the intention of syndicating to third parties a portion or potentially all of their investment following the initial signing or consummation thereof. If our clients are unable to sell, assign or successfully close transactions for participations in the loans that it originates, our clients will be forced to hold its excess interest in such loans for an indeterminate period of time. This could result in our clients' investments being over-concentrated in certain borrowers.

### Market Making By Dealers

The value of our clients' fixed-income investments will be affected by general fixed income market conditions, such as the volatility and liquidity of the fixed income market, which are affected by the ability of dealers to "make a market" in fixed-income investments. In recent years, the market for bonds has significantly increased while dealer inventories have significantly decreased, relative to market size. This reduction in dealer inventories may be attributable to regulatory changes, such as capital requirements, and is expected to continue. As dealers' inventories decrease, so does their ability to make a market (and, therefore, create liquidity) in the fixed income market. Especially during periods of rising interest rates, this could result in greater volatility and illiquidity in the fixed income market, which could impair our clients' profitability or result in losses.

### Investments in Highly Leveraged Companies

Certain clients' investments may include investments in companies whose capital structures have significant leverage (including substantial leverage senior to our clients' investment, a considerable portion of which may be secured by first liens and/or may be at floating interest rates). Such investments are inherently more sensitive to declines in revenues, competitive pressures and increases in expenses and interest rates. The leveraged capital structure of such companies will increase their exposure to adverse economic factors such as downturns in the economy or deterioration in the condition of the company or its industry, and such companies may be subject to restrictive financial and operating covenants. This leverage may result in more serious adverse



consequences to such companies (including their overall profitability or solvency) in the event these factors or events occur than would be the case for less leveraged companies. If a company cannot generate adequate cash flow to meet debt obligations, the company may default on its loan agreements or be forced into bankruptcy resulting in a restructuring of the company's capital structure or liquidation of the company. Furthermore, to the extent companies in which our clients has invested become insolvent, our clients may determine, in cooperation with other debt holders or on its own, to engage, at our clients' expense in whole or in part, counsel and other advisors in connection therewith.

#### *Zero-Coupon and Deferred Interest Bonds*

Certain client may invest in zero-coupon bonds and deferred interest bonds, which are debt obligations issued at a significant discount from face value. The original discount approximates the total amount of interest the bonds will accrue and compound over the period until maturity or the first interest accrual date at a rate of interest reflecting the market rate of the security at the time of issuance. While zero-coupon bonds do not require the periodic payment of interest, deferred interest bonds generally provide for a period of delay before the regular payment of interest begins. Such investments experience greater volatility in market value due to changes in interest rates than debt obligations that provide for regular payments of interest.

#### *High-Yield*

Certain client may invest in bonds or other fixed-income securities that are "higher yielding" (including non-investment grade) debt securities are generally not exchange-traded and, as a result, these securities trade in the over-the-counter marketplace, which is less transparent and has wider bid/ask spreads than the exchange-traded marketplace. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions, which could lead to the issuer's inability to meet timely interest and principal payments. High-yield securities are generally more volatile and may or may not be subordinated to certain other outstanding securities and obligations of the issuer, which may be secured by substantially all of the issuer's assets. High-yield securities may also not be protected by financial covenants or limitations on additional indebtedness. The market values of certain of these lower-rated



and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities may be highly leveraged and may not have available to them more traditional methods of financing. In addition, our clients may invest in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. Our clients may invest in obligations of issuers that are generally trading at significantly higher yields than had been historically typical of the applicable issuer's obligations. Such investments may include debt obligations that have a heightened probability of being in covenant or payment default in the future or that are currently in default and are generally considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or other payments. Typically such workout or bankruptcy proceedings result only in partial recovery of cash payments or an exchange of the defaulted security for other debt or equity securities of the issuer or its affiliates, which may in turn be illiquid or speculative.

#### Corporate Debt

Certain clients invest in bonds, notes and debentures issued by corporations that may pay fixed, variable or floating rates of interest, and may include zero-coupon obligations. Corporate debt instruments may be subject to credit ratings downgrades. Other instruments may have the lowest quality ratings or may be unrated. In addition, our clients may be paid interest in kind in connection with its investments in corporate debt and related financial instruments (e.g., the principal owed to our clients in connection with a debt investment may be increased by the amount of interest due on such debt investment). Such investments may experience greater market value volatility than debt obligations that provide for regular payments of interest in cash and, in the event of a default, our clients may experience substantial losses.



### *Non-Performing Nature of Debt*

Certain debt instruments may be non-performing or in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to such debt instruments.

### *Stressed Debt*

Certain clients invest in stressed issuers, which are issuers that are not yet deemed distressed or bankrupt and whose debt securities are trading at a discount to par, but not yet at distressed levels. An example would be an issuer that is in technical default of its credit agreement, or undergoing strategic or operational changes, which results in market pricing uncertainty. The market prices of stressed and distressed instruments are highly volatile, and the spread between the bid and the ask prices of such instruments is often unusually wide.

### *Bankruptcy Claims*

Certain clients' investments include debt and equity of financially distressed companies. In the event that the issuer files for bankruptcy protection, such clients will likely be unable to sell their claims without realizing a significant loss and may be unable to recover current interest on such claims during the course of the bankruptcy case. The markets in U.S. bankruptcy claims are generally not regulated by U.S. federal securities laws or the SEC. To the extent debt investment is unsecured (i.e., has no collateral securing repayment), such claims may have a lower priority than secured claims (which have first recourse to the collateral securing such claim). In addition, the debt of an issuer in bankruptcy may be adversely affected by an erosion of the issuer's business and overall value. Accordingly, there can be no guarantee that a debtor will be able to satisfy all of its liabilities or that our clients will be able to recover the entire amount of its bankruptcy claim. Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to appear and be heard, there can be no assurance that a bankruptcy court would not approve actions that may be contrary to the interests of a client (in its role as a creditor). Furthermore, there are instances where creditors lose their priority under



Title 11 of the United States Code (the “**Bankruptcy Code**”) (i.e., are equitably subordinated ) if, for example, they have engaged in misconduct that harms other creditors. In those cases where our clients are found to have engaged in such misconduct, our clients may lose their priority. Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, the approval of the plan by creditors and confirmation of the plan by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and our clients; it is subject to unpredictable and lengthy delays; and during the process the company’s competitive position may erode, key management may depart and the company may not be able to invest adequately. In some cases, the issuer may not be able to reorganize and may be required to sell its assets either as a going concern or as part of a liquidation. As a result, even in those circumstances where our clients may recover the entire amount of its bankruptcy claim, our clients may be adversely impacted by any costs incurred by our clients in representing their interests in a debtor’s bankruptcy case. U.S. bankruptcy law permits the classification of “substantially similar” claims in determining the classification of claims in a reorganization for the purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that such client’s influence with respect to a class of securities can be lost by virtue of the size of its claim relatively the claims of the entire class. In addition, certain administrative costs and claims that have priority by law over the claims of certain creditors (for example, claims for certain taxes) may impair the recovery of an investment in a bankruptcy claim. Certain clients intend to invest some of their assets in securities of issuers domiciled, or assets located, globally. Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain. The Leste Group, on behalf of our clients, may elect to serve on creditors’ committees, equityholders’ committees or other groups to ensure preservation or enhancement of our clients’ positions as a creditor or equityholder. A member of any such committee or group may owe a fiduciary duty and be subject to certain obligations to all members the committee represents and/or to other similarly situated parties. The Leste Group may resign from that



committee or group for any reason, including, for example, if the Leste Group concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to our clients. In such case, our clients may not realize the benefits, if any, of participation on the committee or group. In addition, if a client is represented on a committee or group, it may be restricted or prohibited under applicable law from disposing of or increasing its investments in such company while it continues to be represented on such committee or group. Our clients may purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser. Additionally, the claim may be disallowed or subordinated if the bankruptcy court determines that the seller engaged in inequitable conduct that harmed other creditors. Reorganizations can be contentious and adversarial, and it is by no means unusual for participants to use the threat of litigation and to engage in litigation as a negotiating technique. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by the relevant client.

#### *Debtor-in-Possession Loans.*

From time to time, our clients will invest in or extend loans to entities that have filed for protection under Chapter 11 of the U.S. Bankruptcy Code or equivalent protections under the laws of other jurisdictions. These debtor-in-possession ("DIP") loans are most often revolving working-capital facilities put into place at the outset of a Chapter 11 case to provide the debtor with both immediate cash and the ongoing working capital that will be required during the reorganization process. While such loans are generally less risky than many other types of loans as a result of their seniority in the debtor's capital structure and because their terms have been approved by a federal bankruptcy court order, it is possible that the debtor's reorganization efforts may fail and the proceeds of the ensuing liquidation of the DIP lender's collateral might be insufficient to repay the DIP loan.



### *Troubled Origination*

When financial institutions or other entities that are insolvent or in serious financial difficulty originate debt, the standards by which such instruments were originated, the recourse to the selling institution, or the standards by which such instruments are being serviced or operated may be adversely affected.

### *Sovereign Debt*

Several factors may affect (i) the ability of a government, its agencies, instrumentalities or its central bank to make payments on the debt it has issued ("**Sovereign Debt**"), including securities that the Leste Group believes are likely to be included in restructurings of the external debt obligations of the issuer in question, (ii) the market value of such debt and (iii) the inclusion of Sovereign Debt in future restructurings, including such issuer's (x) balance of trade and access to international financing, (y) cost of servicing such obligations, which may be affected by changes in international interest rates, and (z) level of international currency reserves, which may affect the amount of non-U.S. exchange available for external debt payments. Significant ongoing uncertainties and exposure to adverse conditions may undermine the issuer's ability to make timely payment of interest and principal, and issuers may default on their Sovereign Debt.

### *Middle Market Loans*

Middle market loans are subject to the same risks associated with loans in general described herein. However, middle market loans are generally made to small and mid-sized companies and are not broadly syndicated. As a result, middle market loans are significantly less liquid than larger broadly syndicated leveraged loans and the credit profile of the obligors of middle market loans may be subject to additional risk.

### *Mezzanine Loans*

Mezzanine debt is typically junior to the obligations of a company to senior creditors, trade creditors and employees. The ability of our clients investing in mezzanine loans to influence a company's affairs, especially during periods of financial distress or following





an insolvency, will be substantially less than that of senior creditors. Mezzanine debt instruments are often issued in connection with leveraged acquisitions or recapitalizations in which the issuers incur a substantially higher amount of indebtedness than the level at which they had previously operated. Default rates for mezzanine debt instruments have historically been higher than for investment-grade instruments. In the event of the insolvency of a portfolio company of our clients or similar event, our clients' debt investment therein will be subject to fraudulent conveyance, subordination and preference laws.

#### *Prepayment of Loans*

The frequency at which prepayments (including voluntary prepayments by the obligors and accelerations due to defaults) occur on debt instruments will be affected by a variety of factors including the prevailing level of interest rates and spreads as well as economic, demographic, tax, social, legal and other factors. Generally, obligors tend to prepay their fixed rate obligations when prevailing interest rates fall below the coupon rates on their obligations. Similarly, floating rate issuers and borrowers tend to prepay their obligations when spreads narrow. In general, "premium" securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" securities (securities whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since many fixed rate obligations will be discount instruments when interest rates and/or spreads are high, and will be premium instruments when interest rates and/or spreads are low, such debt instruments may be adversely affected by changes in prepayments in any interest rate environment. The adverse effects of prepayments may impact our clients' portfolio in two ways. First, particular investments may experience outright losses, as in the case of an interest-only instrument in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that the Leste Group may have constructed for these investments, resulting in a loss to our clients' overall portfolio. In particular, prepayments (at par) may limit the potential upside of many instruments to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.





### Accuracy of Public Information

The Leste Group selects investments for our clients, in part, on the basis of information and data filed by issuers with various government regulators or made directly available to the Leste Group by the issuers or through sources other than the issuers. Although the Leste Group evaluates all such information and data and ordinarily seeks independent corroboration when it considers it is appropriate and reasonably available, the Leste Group makes no representation as to the completeness, genuineness or accuracy of such information and data, and in some cases, complete and accurate information is not available.

### Fraud Risks

Of paramount concern in purchasing loans and other assets is the possibility of material misrepresentation or omission on the part of a counterparty. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or other asset, or may adversely affect the ability of the lender of record to perfect or effectuate a lien on the collateral securing the loan or other assets. Our clients rely upon the accuracy and completeness of representations made by companies in which our clients invest or other counterparties to the extent reasonable, but cannot guarantee that such representations are accurate or complete. Under certain circumstances, payments to our clients may be reclaimed if any such payment or distribution is later determined to have been made with intent to defraud or prefer creditors.

### Lack of Control

Our clients may invest in debt instruments and equity securities of companies that it does not control, which our clients may acquire through market transactions or through purchases of securities directly from the issuer or other shareholders. Such securities will be subject to the risk that the issuer may make business, financial or management decisions with which our clients do not agree or that the majority stakeholders or the management of the issuer may take risks or otherwise act in a manner that does not serve our clients' interests. In addition, our clients may share control over certain investments with co-investors, which may make it more difficult for our clients to implement its investment approach or exit the investment when it otherwise would. The



occurrence of any of the foregoing could have a material adverse effect on our clients and the investors' investments therein.

*"Widening" Risk*

For reasons not necessarily attributable to any of the risks set forth herein (for example, supply/demand imbalances or other market forces), the prices of the debt instruments and other securities in which our clients invests may decline substantially. In particular, purchasing debt instruments or other assets at what may appear to be "undervalued" or "discounted" levels is no guarantee that these assets will not be trading at even lower levels at a time of valuation or at the time of sale. It may not be possible to predict, or to hedge against, such "spread widening" risk. Additionally, the perceived discount in pricing from previous environments described herein may still not reflect the true value of the assets underlying debt instruments in which our clients invest.

*Stress in Credit Markets May Affect Ability to Finance and Consummate Investments*

Losses and related economic and financial market events that originated in the U.S. subprime mortgage market and spread to other areas of the fixed income markets have caused significant disruptions, illiquidity and volatility in the structured credit, leveraged loan and high-yield bond markets, as well as in the wider global capital and financial markets. These events had caused significant dislocations, illiquidity and volatility in the wider global economy and significantly diminished the availability of credit and increased the cost of financing for businesses, which materially hindered the initiation of new, large-sized leveraged transactions and, together with declines in valuations of equity and debt securities, adversely affected the private equity sector. While overall economic and financial market conditions have begun to improve from the depths of the serious U.S. recession, there can be no assurance that such improvement will continue or that such market conditions will not begin to deteriorate once again. In addition, continued turbulence in the international markets and economies may negatively affect the U.S. and global economies and financial markets.

To the extent that marketplace events worsen, this may have an adverse impact on the availability of credit to businesses generally and could lead to a further overall weakening of the U.S. and global economies. High unemployment and limited



availability of credit may lead to increased default rates on our clients' investments. In acquiring such types of assets, our clients will incur the risks of a partial or total loss of capital invested in such investments, which could, in turn, have an adverse effect on our clients' returns. Various market circumstances could restrict the ability of our clients to sell or liquidate investments at favorable times or for favorable prices.

#### *Equitable Subordination*

Under common law principles that in some cases form the basis for lender liability claims, if a lender (i) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called "equitable subordination"). If our clients engage in such conduct, our clients may be subject to claims from creditors of an obligor that debt held by our clients should be equitably subordinated.

#### *Debt Instruments Secured by Real Estate*

Some of our clients' debt investments may be secured by real estate. Real estate collateral provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended such as if there is a downturn in the real estate market. The real estate market has been substantially impacted by recent economic events, increased levels of inventories of unsold homes, and higher foreclosure rates. As a result, property values for real estate collateral have previously declined substantially and may do so again in the future. Any such decrease in the value of the real estate collateral may impair our ability to sell the collateral upon foreclosure. Such a determination could adversely impact the value of our clients' investments.



## **Risks Associated with Real Estate Strategy**

### **Real Estate Risks**

Our clients' real estate investment, just as any interest in real property (including ownership in vehicles that hold real estate assets), is subject to the risks generally incident to the ownership of real property. Real estate historically has experienced significant fluctuations and cycles in value and is subject to local market conditions which may result in reductions in value. The marketability and value of the certain client's real property interests will depend on many factors beyond the control of the Leste Group, including:

- national, regional and local economic conditions (which may be adversely impacted by plant closings, business layoffs, industry slow-downs, weather conditions, natural disasters, and other factors);
- local real estate conditions (such as competition from other owners or operators of office properties, over-supply of, or insufficient demand for, office space);
- perceptions by prospective tenants of the convenience, services, safety, and attractiveness of a property;
- increases in costs of maintenance, insurance, compliance with laws and regulations and other operating expenses (including energy costs, real estate taxes and compliance with the Americans with Disabilities Act);
- change in applicable laws or regulations (including tax laws, land-use and zoning restrictions, rent controls or building codes);
- potential environmental and other legal liabilities;
- changes in interest rate levels;
- the availability and cost of refinancing that may render the sale or refinancing of a property difficult;
- the financial condition of tenants, buyers and sellers of properties;
- the ability to find suitable tenants for a property and to replace any departing tenants with new tenants;
- the fact that real estate investments generally cannot be sold quickly; and
- various uninsured or uninsurable risks and acts of God, natural disasters and uninsurable losses.



In addition, general economic conditions, as well as conditions of domestic and international financial markets, may adversely affect the operations of our clients.

#### *Nature of Assets*

Investments in real estate and real estate-related assets involve a long-term commitment, a high degree of financial risk and utilizes leveraged capital structures. There can be no assurance that our client's rate of return objectives will be realized or that there will be any return of capital.

#### *Construction and Development Risk*

Our clients, as owner of certain real properties, as applicable, may attempt to add value by renovating such property or may develop properties from the ground up. Certain clients will be subject to the risks normally associated with such activity. Such risks include, without limitation, risks relating to the availability and timely receipt of zoning and other regulatory approvals, the cost and timely completion of construction (including risks beyond the control of the Leste Group, such as weather or labor conditions or material shortages), changes in supply and demand, contractor and/or subcontractor bankruptcy or default and/or existence of unforeseen creditors. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent the completion of construction and/or renovation activities once undertaken.

#### *Labor Relations*

Real estate developments and real estate-related investments involve the risks relating to work stoppages, shortages of labor, strikes, union relations and contracts, fluctuating prices and supply of labor and or other labor-related factors. The occurrence of one or more of such circumstances with respect to an investment could result in increased costs, unanticipated delays of construction or interruptions to the operations of an investment.

#### *Environmental Risk*

Our client's real estate investments may be exposed to undisclosed or unknown environmental problems including, without limitation, asbestos or mold. The costs



associated with the removal or remediation of such substances may be greater than the Leste Group anticipated. Under various federal, state and local laws, ordinances and regulations, an owner or operator of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property. Such laws often impose such liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances.

#### *Harmful Mold and Other Air Quality Issues*

When excessive moisture accumulates in buildings or on building materials, mold may grow, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to radon, airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants could require a costly remediation program to contain or remove the mold or other airborne contaminants from the affected property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose, directly or indirectly, the applicable clients to liability from its tenants, employees of its tenants and others if property damage or health concerns arise.

#### *Casualty and Condemnation*

Investments in real estate are subject to the risks of partial or total condemnation in accordance with applicable law or regulation and casualty, whether arising from destruction by fire, earthquake, flood, hurricane, mudslides, or otherwise. In either case, a client's Investment may be subject to one or more of the following liabilities: (i) lenders may require prepayments of outstanding loans with any proceeds arising from a casualty or condemnation recovery event (i.e., insurance coverage), (ii) insurance coverage may not be sufficient to cover renewal of the investment, (iii) renovations or developments may be delayed and (iv) a seller may bear the risk of loss for such casualty or condemnation in connection with the disposition of the investment through the date of disposition.



### Insurance Risk

The Leste Group may take out insurance to cover real estate investments from certain risks. The costs of such insurance will be paid by the applicable client or the applicable portfolio company. A risk remains that the scope and/or level of insurance coverage may be inadequate (in addition to the deductible), losses may be incurred as a result of insurance oversights, excesses, claim disputes or claim rejections or no insurance coverage will be obtained because it is cost prohibitive. If a major uninsured loss occurs, the applicable client could lose profits from such investment.

### Geographic Concentration/Natural Disasters

Any deterioration in the real estate market or economy or events in those states or regions where real estate assets are located, including earthquakes, floods, hurricanes and other natural disasters, may affect the value of the real-estate related investments of a client. In addition, some investments covering real property may be located in states that may be more susceptible to earthquakes, or states that may be more susceptible to hurricanes than properties located in other parts of the country. In many cases, the real estate assets purchased by our client and the properties securing the loans and bonds may not be insured for earthquake or hurricane risk. Even if the properties are insured, they may be insured for amounts less than the outstanding principal balances of the related loans. In addition, even if the real estate assets held by the applicable client are insured, such insurance may not be enough to rebuild properties damaged in the midst of construction. Also, if an earthquake, hurricane or other natural disaster significantly interrupts construction, projects will take longer to complete and the applicable client will incur greater carrying costs.

### Rental Property Risk.

Certain clients may derive income from rent payments under leases with tenants in our real estate investments. Tenants may delay lease commencements or renewals, fail to make rent payments (including, without limitation, any common, maintenance or housing association charges or fees) when due, declare bankruptcy, default under leases, or damage or fail to maintain such properties. Any tenant's default under its lease, failure to make rent payments when due or bankruptcy could result in the



termination of such tenant's lease without the applicable client recovering all of its damages despite its rights and remedies under the lease. In addition, such defaults and other circumstances outside of the Leste Group's control could result in a termination of a lease, and the Leste Group may have difficulty obtaining new tenants at the rental rate the Leste Group desires. Further, on expiration of any lease, market conditions may impair our ability to re-lease the applicable property at appropriate rental rates.

#### *Investment in Single-Family Properties*

Certain clients may invest in single-family residential properties. Single-family residential properties are subject to many of the general risks associated with investments in real estate generally. Single-family residences are particularly susceptible to risk of default as the risk is concentrated in a single tenant. Tenants of such properties may delay lease commencement or renewal, fail to make rent payments (including, without limitation, any common, maintenance or housing association charges or fees) when due, declare bankruptcy, default under the lease, or damage or fail to maintain the real property. Any tenant's default under its lease, failure to make rent payments when due or bankruptcy could result in the termination of such tenant's and would likely have a material impact on the client's investment therein. On expiration of any lease, market conditions may impair the Leste Group's ability to re-lease the applicable real property at desirable rental rates.

#### *Investment in Multifamily Properties*

Certain clients may invest in a multifamily residential property. A large number of risk factors may affect the value and successful operation of such properties, including: physical attributes of the property such as its age, condition, design, appearance, access to transportation and construction quality; location of the property; ability of management to provide adequate maintenance and insurance; the types of services or amenities that the property provides; the property's reputation; the level of mortgage interest rates and availability of government incentives, which may encourage tenants to purchase rather than lease housing; presence of competing properties; the tenant mix, such as the tenant population being predominantly students or being heavily dependent on workers from a particular business; adverse local or national economic conditions, which may limit the amount of rent that may be charged and may result in a reduction of timely rent payments or a reduction in occupancy levels; state and local regulations,





which may affect the building owner's ability to increase rent to the level of market rents for an equivalent apartment; government assistance/rent subsidy programs; and the inventory of unsold condominium units in the local market that are being rented until economic conditions in the condominium market improve. If any of such risk factors are heightened or the conditions associated with such risk factors deteriorate, our client's investment in a multifamily property may incur losses.

In addition, certain jurisdictions regulate the relationship between an owner and its tenants. Commonly, these laws require a written lease, good cause for eviction, disclosure of fees and notification to residents of changed land use, while prohibiting unreasonable rules and retaliatory evictions. In addition to U.S. federal, state and/or local regulation of the landlord-tenant relationship, some counties and/or municipalities impose rent control on apartment buildings. These ordinances may limit rent increases to fixed percentages, to percentages of increases in the consumer price index, to increases set or approved by a governmental agency or to increases determined through mediation or binding arbitration.

#### *Investments in Commercial Properties*

Certain clients may acquire office buildings or other commercial properties. Acquisitions of these properties entail risks that investments will fail to perform in accordance with expectations. Estimates of renovation costs and costs of improvements to bring an acquired property up to standards established in the market for that property may prove inaccurate. In addition the acquisition and renovation of office and other commercial properties involve risks of the possibility of environmental problems, construction delays and uncertainties as to market demand or deterioration of market demand after acquisition or renovation. Office buildings and other commercial properties are subject to a number of operating risks, including, among other things, (i) competition from other properties in the same geographic market; (ii) increases in operating and maintenance costs; (iii) dependence on key tenants; (iv) fluctuating lease and occupancy rates; (v) the financial condition of tenants and related risks of default by tenants experiencing financial problems; and (vi) adverse effects of general and local economic conditions. These factors could adversely affect our clients' ability to generate revenues.



### Investments in Hospitality Properties

Certain clients may acquire hospitality properties. Hospitality properties may involve different types of hotels and motels. Factors affecting the value, operation and economic performance of a hospitality property include: (i) the location of the property and its proximity to major population centers or attractions; (ii) the seasonal nature of business at the property; (iii) the level of room rates relative to those charged by competitors; (iv) quality and perception of the franchise affiliation; (v) economic conditions, either local, regional, national or international, which may limit the amount that can be charged for a room and may result in a reduction in occupancy levels; (vi) the existence or construction of competing hospitality properties; (vii) nature and quality of the services and facilities; (viii) financial strength and capabilities of the owner and operator; (ix) the need for continuing expenditures for modernizing, refurbishing and maintaining existing facilities; (x) increases in operating costs, which may not be offset by increased room rates; (xi) the property's dependence on business and commercial travelers and tourism; (xii) changes in travel patterns caused by changes in access, energy prices, labor strikes, relocation of highways, the reconstruction of additional highways or other factors; and (xiii) changes in travel patterns caused by perceptions of travel safety, which perceptions can be significantly and adversely influenced by terrorist acts and foreign conflict as well as apprehension regarding the possibility of such acts or conflicts.

### Medical Office Buildings

Certain clients may invest exclusively in healthcare related properties. A downturn in the medical real estate industry could significantly adversely affect the value of such properties. A downturn in the healthcare industry could negatively affect the tenant's ability to make rent payments, which may have a material adverse effect on the client's business. In addition, certain of such properties may be specialized medical facilities. If the client's tenants terminate the leases for these properties, the Leste Group may not be able to locate suitable replacement tenants to lease the properties for their specialized uses or may be required to make substantial capital expenditures to adapt the properties to other uses, which may have a material adverse effect on our client's business. In particular, the healthcare industry is currently experiencing: changes in the demand for and methods of delivering healthcare services; changes in third party reimbursement policies; substantial competition for patients among healthcare



providers; continued pressure by private and governmental payors to reduce payments to providers of services; and increased scrutiny of billing, referral and other practices by U.S. federal and state authorities. These factors may adversely affect the economic performance of some or all of such client's tenants and, in turn, such client's lease revenues.

### **Risks Related to Investments in Brazil**

Certain of the Leste Funds invest all or a significant portion of its assets in liquid or illiquid assets in Brazil. Below is an overview of certain, but not all, risks that are specific to investments in Brazil. The extent of investments in Brazil are specified in the relevant Leste Fund's Memorandum.

#### **Investments through Brazilian Investment Funds.**

Certain of the Leste Funds invest in Brazilian assets through investment funds organized under Brazilian law. Investment funds in Brazil must be registered with the CVM (the Brazilian Securities Commission) prior to starting their operations. As a general concept, the Brazilian investment funds are not organized as companies, corporations, partnerships or trusts, but, rather as pools of assets jointly owned by investors under the structure of a co-ownership, also characterized as a "condominium." Considering that Brazilian funds do not constitute a separate and independent legal entity from its investors, investment funds in Brazil do not confer limited liability to their investors.

The shares ("quotas") of Brazilian investment funds, regardless of their classes or series, represent a portion of the Brazilian investment fund's net asset value, and may not be segregated to a specific portion of the Brazilian investment fund's net worth.

There are two main categories of investment funds in Brazil: (i) mutual funds, regulated by the CVM Rule 555/14; and (ii) structured funds, which are regulated by specific CVM Rules, such as CVM Rule 356/01, CVM Rule 444/06, CVM Rule 472/08 and CVM Rule 578/16.



The main structured Brazilian investment funds are: (i) private equity funds (fundo de investimento em participações or “**FIP**”); (ii) credit funds (either fundo de investimento em direitos creditórios or “**FIDC**” or fundo de investimento em direitos creditórios não padronizados or “**FIDC-NP**”) and (iii) real estate investment funds (fundo de investimento imobiliário or “**FII**”).

The terms and conditions of operating Brazilian investment funds are set forth in its by-laws, including, but not limited to, the segment in which the Brazilian investment fund will operate, duration of the Brazilian investment fund, its investments policy, the credit risks, the market risks and other risks involved.

### *Risks Related to Brazil's Economy*

The Brazilian economy differs from the economies of the United States or Western European countries in such respects as general development, wealth distribution, inflation rate, volatility of the rate of growth of gross domestic product, capital reinvestment, resource self-sufficiency and balance of payments position, among others.

In particular, Brazil has experienced substantial and, over some periods, extreme and volatile inflation rates and fluctuations in the value of its currency. Inflation and rapid fluctuations in currency values have had and may continue to have negative effects on the economy and securities markets of Brazil.

In 2008 and 2009 Brazil was awarded investment-grade status by three rating agencies (Standard & Poor's, Fitch, and Moody's), but the country lost this status in 2015 (Standard & Poor's and Fitch) and 2016 (Moody's) following the deterioration in economic and fiscal conditions. Economic institutions in Brazil are continuing to evolve and they still trail more developed markets in certain respects. Certain enterprises continue to operate under inefficient management structures and with little accountability. Market institutions have not yet developed in such a way as to allocate resources efficiently among firms. In addition, while basic bankruptcy laws are evolving, there is insufficient experience in Brazil to ensure that such laws will permit the orderly liquidation of inefficient firms.



Also, economic and market conditions in other emerging market countries influence the Brazilian economy and investors' perception of economic conditions in Brazil. For example, the Asian economic crisis and the 1998 Russian debt moratorium and devaluation of the Russian currency triggered significant securities market volatility and declines in market indices in Brazil and other emerging market countries' securities markets. The market value of Brazilian assets may therefore be adversely affected by events occurring outside of Brazil, especially in other emerging market countries.

*Brazilian Government's Role in Economy.*

The Brazilian economy has been characterized by frequent and occasionally drastic intervention by the Brazilian government, although such interventions have been decreasing in magnitude and frequency since the adoption of the Brazilian Real monetary currency in Brazil in 1994. The Brazilian government has often changed monetary, credit, tariff and other policies to influence the course of Brazil's economy. In the past, the Brazilian government's actions to control inflation have often involved wage and price controls (including controls on the price of food and general merchandise) as well as other interventionist measures, such as freezing bank accounts, which occurred in 1990, and imposing capital controls. Changes in policies involving tariffs, exchange controls, regulations and taxation could adversely affect the assets of the relevant Leste Fund held in Brazil, as could the Brazilian government's response to inflation, devaluation, social instability and other political, economic or diplomatic developments. However, the Investment Manager has no control over and cannot predict what measures or policies the Brazilian government may take in the future.

Certain Leste Fund's businesses, financial condition and results of operations may be adversely affected by changes in policy or regulations in Brazil, involving or affecting general economic factors such as:

- Brazilian economic growth;
- Currency fluctuations;
- Inflation;
- Exchange control policies (including payment restrictions on foreign currency indebtedness);



- Interest rates;
- Liquidity of domestic capital and lending markets;
- Social instability;
- Price instability;
- Fiscal and regulatory policies and changes in tax laws; and
- Other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian federal government will implement changes in policy or regulation affecting these or other factors in the future may contribute to economic uncertainty in Brazil. We cannot predict what future fiscal, monetary, social security and other policies will be adopted by the current Brazilian federal government or future Brazilian governments. Presidential elections, along with political and economic transition in Brazil, may result in potential changes in administration or other developments that may adversely affect the relevant Leste Fund's business and financial results. We cannot predict whether any future policies to be adopted by Brazilian government will result in adverse consequences to the Brazilian economy, to the relevant Leste Fund's business, results of operations or financial condition or prospects. While Leste Group intends to manage the relevant Leste Fund's investments in a manner that will minimize their exposure to such risks, there can be no assurance that adverse political or economic changes will not cause the relevant Leste Fund to suffer losses.

#### *Internal Political and Economic Instability.*

Historically, the performance of the Brazilian economy has been affected by Brazil's political environment. Political crises have affected investor confidence in Brazil, which adversely affects the development of the economy. Any such development may have a material adverse effect on certain Leste Fund's business.

#### *Inflation in Brazil.*

Before the adoption of the Brazilian Real, Brazil has in the past experienced high rates of inflation, with annual inflation rates as measured by the IGP-M, a general price inflation index, reaching 2,567% in 1993 and 870% in 1994. More recently, the annual



inflation rate measured by the same index decreased from 25.3% in 2002 to a deflation rate of 1.7% in 2009, due to the effects of the global financial crisis that began in late 2008. In 2015, 2016, 2017 and 2018, the inflation rate in Brazil was 10.5%, 7.2%, -0.5% and 7.6%, respectively, and in 2019 it is currently measured as 4.4%, year-to-date. The historical volatility in Brazilian inflation rates has also resulted in high and frequently fluctuating interest rates in Brazil. If Brazil experiences substantial inflation in the future, certain Leste Fund's costs may increase, the relevant Leste Fund's opportunity set as well as its operating margins may decrease, and such decrease may adversely affect the relevant Leste Fund's ability to pay its expenses and the ability of companies in which the relevant Leste Fund has invested to satisfy their payment obligations to the relevant Leste Fund. Inflationary pressures may also lead to further government intervention in the economy, including the introduction of government policies that may adversely affect the overall performance of the Brazilian economy and the companies to which the relevant Leste Fund lends or in which the relevant Leste Fund has invested. The Brazilian monetary authorities have taken steps designed to counter increasing inflation, but there can be no assurance that increases in inflation will not occur; should increases occur they will likely have a material adverse effect on the relevant Leste Fund's performance.

*Brazilian Real-Market and Convertibility Risks.*

Certain Leste Fund's investments in Brazil will be exposed to Brazilian Real fluctuation against the U.S. Dollar. Investors in the relevant Leste Fund should be aware that the volatility and variations of Brazilian exchange rates may be substantially higher when compared with exchange rates among developed countries and even with some other emerging market exchange rates.

In the past, the Brazilian government has implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations (during which the frequency of adjustments has ranged from daily to monthly), floating exchange rate systems, exchange controls and dual exchange rate markets. Although over long periods the devaluation of the Brazilian currency generally has correlated with the rate of inflation in Brazil, devaluations over shorter periods have resulted in significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar, as well as currencies of other countries. Historically, depreciations





of the Brazilian Real have produced inflationary pressures in the Brazilian economy (either by increasing the price of imported products or as a result of governmental policies instigated to curb aggregate demand), and there can be no assurance that any further devaluation of the Brazilian currency will not cause similar or other adverse effects in the future.

In addition, the Brazilian Real is exposed to convertibility risk (or frontier risk), which means that the country may impose temporary restrictions on foreign capital remittances abroad. The relevant Leste Fund could be adversely affected by delays in, or a refusal to grant, any required governmental approval for repatriation of capital, as well as by the application to the relevant Leste Fund of any restrictions on investments.

#### *Ability to Enforce Legal Rights.*

Certain Leste Funds may have difficulty in successfully pursuing claims in the courts of Brazil. Further, to the extent that the relevant Leste Fund may obtain a judgment but is required to seek its enforcement in the courts of Brazil, there can be no assurance that such a court will enforce such a right. A judgment obtained outside Brazil would be enforceable in Brazil, without reconsideration of the merits, upon confirmation of that judgment by the Brazilian Superior Court of Justice (*Superior Tribunal de Justiça*). That confirmation, generally, will occur if the foreign judgment (i) fulfills all formalities required for its enforceability under the laws of the country where the foreign judgment is granted, (ii) is issued by a competent court after proper service of process is made in accordance with Brazilian legislation, (iii) is not subject to appeal, (iv) is authenticated by a Brazilian consular office in the country where the foreign judgment is issued and is accompanied by a sworn translation into Portuguese, and (v) is not contrary to Brazilian national sovereignty, public policy or public morality (as set forth under Brazilian law). Notwithstanding the foregoing, no assurance can be given that such confirmation will be obtained at all or in a timely manner or that a Brazilian court would enforce a judgment obtained outside Brazil.

#### *Restrictions and Control on Foreign Investments.*

Foreign investment in securities of Brazilian issuers is restricted or controlled to varying degrees. These restrictions or controls may at times limit or preclude foreign investment in certain issuers and increase the costs and expenses of the relevant Leste Fund.





There can be no assurances that these restrictions will not adversely affect the relevant Leste Fund's ability to achieve its investment objective or that they will not adversely affect the performance of the relevant Leste Fund's investments. In addition, if there is a deterioration in a specific government's balance of payments or for other reasons, such government may impose temporary restrictions on foreign capital remittances abroad subject to exchange control restrictions and foreign investment legislation, which generally requires, among other things, obtaining a certificate of registration. For example, in 1990, the Brazilian government froze bank deposits as part of an economic stabilization plan, including the deposits of foreign investors investing through government-approved programs. The relevant Leste Fund could be adversely affected by delays in, or a refusal to grant any required governmental approval for repatriation of capital, as well as by the application to the relevant Leste Fund of any restrictions on investments. Moreover, restrictions may be imposed on remittances to foreign investors relating to distributions or other proceeds relating to their investments. There can be no assurance that additional or different restrictions or adverse policies applicable to the relevant Leste Fund could not be imposed in the future, nor as to the duration or impact of such restrictions or policies if imposed.

#### *Nationalization Risk.*

Brazilian governmental authorities may, at any time, cause the expropriation, confiscation, freezing, nationalization, requisition or other action which, directly or indirectly, may deprive the relevant Leste Fund of any of its assets (including rights to receive payments) in Brazil. Any such action with respect to the relevant Leste Fund's investments or companies in which the relevant Leste Fund has invested or extended credit would adversely affect the relevant Leste Fund's investment returns.

#### *Local Intermediary Risk.*

Certain of the Leste Fund's transactions may be undertaken through local brokers, banks or other organizations in Brazil, and the relevant Leste Fund will be subject to the risk of the default, insolvency or fraud of such organizations. There can be no assurance that any money advanced to such organizations will be repaid or that the relevant Leste Fund would have any recourse in the event of default. The collection, transfer and deposit of bearer securities and cash expose the relevant Leste Fund to a



variety of risks including theft, loss, and destruction. Finally, the relevant Leste Fund will be dependent upon the general soundness of the Brazilian banking system.

*Accounting Disclosure Standards in Brazil.*

Accounting, auditing, financial and other reporting standards, practices, and disclosure requirements in Brazil (or other countries in which the relevant Leste Fund may invest) are not equivalent to those in the United States and certain Western European countries and may differ in fundamental ways. Accordingly, information available to the relevant Leste Fund, including both general economic and commercial information and information concerning specific enterprises or assets, may be less reliable and less detailed than information available in more economically sophisticated countries. In addition, in certain circumstances, the relevant Leste Fund may not receive access to all available information to determine fully the investments or the manner in which such investments have been serviced and/or operated. As a result, the relevant Leste Fund's due diligence activities may provide less information than the due diligence reviews conducted in more developed countries. While the relevant Leste Fund and the relevant Leste entity will endeavor to conduct appropriate due diligence in connection with each investment, no guarantee can be given that they will obtain the information or assurances that an investor in a more sophisticated economy would obtain before proceeding with an investment.

*Increased Tax Rates in Brazil.*

The Brazilian government has in the past changed tax rates and created new taxes, as well as modified the system of taxation with some frequency. In the event that the Brazilian government increases tax rates or creates new taxes that are imposed on the relevant Leste Fund or its portfolio investments, the financial condition and results of operations may be materially adversely affected.

*Risks Associated with Investing in Credit Instruments.*

Certain Leste Fund may invest through a FIDC-NP in a variety of credit instruments issued by mid-sized companies. In addition to the risks of borrower default or delinquency, such FIDC-NP will be subject to a variety of risks in connection with such credit investments, including the risks of mismanagement of the borrower, fraud or a



decline in value of collateral, contested foreclosures, bankruptcy of the borrower or debtor, claims for lender liability, violations of usury laws and the imposition of legal restrictions on such FIDC-NP's exercise of contractual remedies for defaults on such investments.

*Investments in Troubled Brazilian Assets.*

For certain Leste Funds, a FIDC-NP may make investments in non-performing or other troubled assets that involve a high degree of financial risk, and there can be no assurance that the FIDC-NP's target return objectives will be realized or that there will be any return of the FIDC-NP's capital. Furthermore, investments in distressed assets may, in certain circumstances, be subject to additional potential liabilities that could exceed the value of the FIDC-NP's original investment.

*Operational Risks Related to FIDC-NP's Service Providers.*

For certain Leste Fund, while a FIDC-NP will maintain certain procedures and controls to protect its investment in creditors' rights, including the implementation of controls to safeguard supporting documents, monitor payment flow and relevant operational proceedings, including enforcement and collection proceedings, such FIDC-NP may hire third-party service providers to fulfill these duties.

The non-fulfillment of these duties by a FIDC-NP's charging agent, deposit agent, administrator, investment manager, custodians or assignor, in accordance with their contracts with such FIDC-NP, such FIDC-NP's administrator and/or custodian, may result in deviations from such FIDC-NP's procedures for creditors' rights' assignment and enforcement and collection, investment management, administration, deposit, safeguard of support documents, recordkeeping, custody and control of assets and bookkeeping. The failure to implement such procedures may subject such FIDC-NP to losses.



### **Item 9 – Disciplinary Information**

There have been no legal or disciplinary events that would be material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.



## Item 10 – Other Financial Industry Activities and Affiliations

### **Other Financial Industry Affiliates**

#### **Other Leste Advisory Affiliates**

As described above in Item 4 – “Advisory Business”, all Leste Group advisory affiliates are principally owned by Mr. Emmanuel Rose Hermann.

In addition to the advisory affiliates constituting the Leste Group listed in Item 4 – “Advisory Business” above, the Other Leste Advisory Affiliates, as of the date of this Brochure, are:

Leste Capital Management UK LLP (“**Leste UK**”), a limited liability partnership organized under the laws of the United Kingdom. Leste UK is authorized to act as an investment adviser by the Financial Conduct Authority.

Leste Private Equity Gestão de Recursos Ltda. (“**Leste Private Equity Brazil**”), a *sociedade limitada* organized under the laws of Brazil. Leste Private Equity Brazil is also registered as an investment adviser with CVM.

Leste Litigation Finance Consultoria Especializada Ltda. (“**LLF Brazil**”), a *sociedade limitada* organized under the laws of Brazil.

Leste Real Estate Consultoria Imobiliária Ltda. (“**Leste Real Estate Brazil**”), a *sociedade limitada* organized under the laws of Brazil.

Each of the foregoing Leste entities relies on an exemption from registration as an investment adviser with the SEC pursuant to the foreign private adviser exemption of Section 203(b)(3) of the Advisers Act.

Some of our supervised persons also serve as officers or employees of one or more of the Other Leste Advisory Affiliates. When we and our related persons concurrently manage client accounts/investment products, and particularly when dual hatted officers and employees are involved, this presents certain conflicts, as described below.



Management of client accounts by affiliated investment advisers could give rise to a variety of potential and actual conflicts of interest, including potential front-running in the same security, and material non-public information shared across affiliate investment managers. In addition, because the Other Leste Advisory Affiliates perform investment advisory services for various clients, we or one of the Other Leste Advisory Affiliates may give advice or take action in the performance of our duties with respect to our respective clients which differs from the advice given or action taken by us or an Other Leste Advisory Affiliates with respect to our clients.

We and our Advisory Affiliates have taken a number of steps to mitigate these conflicts, including the following: (i) we and the Other Leste Advisory Affiliates have adopted and abide by the same Code of Ethics, (ii) we and the Other Leste Advisory Affiliates share the same restricted list, and (iii) we and the Other Leste Advisory Affiliates are each independently capitalized.

#### NW3 Capital

The Leste Group is also under common control with NW3 Capital Gestão de Recursos Ltda. ("**NW3 Capital**"), a *sociedade limitada* organized under the laws of Brazil. NW3 Capital is also registered as an investment adviser with CVM. NW3 Capital relies on its own exemption from registration as an investment adviser with the SEC. Some of our employees are also officers and/or employees of NW3 Capital. When we and our related persons concurrently manage client accounts/investment products, and particularly when dual officers and employees are involved, this presents certain conflicts, as described above.

NW3 Capital has adopted its own compliance procedures. Our supervised persons who are also employed by NW3 Capital are subject to our Code of Ethics, as described in Item 11 below. The clients of NW3 Capital pursue the same event-driven strategies as certain clients of LGI. Any investment opportunity related to those strategies is subject to review by shared back office personnel to confirm that they are allocated between our respective clients in a manner consistent with our allocation procedures. Both we and NW3 Capital are also subject to review procedures to track our client accounts and will address any potential conflicts of interests that might arise from the foregoing situation.



### **Certain Additional Conflicts of Interest**

The Leste Group and their principals and affiliates may determine, in their discretion, to participate in investments with persons not affiliated with our clients. In addition, we may offer to certain clients, or to any third party, the opportunity to co-invest in opportunities in which a client has invested or that become available to a client. We may offer such opportunities to investors that we select in our discretion without notice to or the consent of any other client or investor.

Further, we have a conflict of interest where a service provider (e.g., legal counsel or accountants) provides services directly to us or one of our affiliates, and separately provides services to one or more clients, in that we or our affiliates may potentially obtain services at a lower cost (or obtain other terms that are more beneficial) than we or our affiliates otherwise could have as a result of the service provider's work performed on behalf of, and the compensation paid to the service provider by, such clients. In particular, unless inconsistent with our applicable written client agreement, costs associated with services rendered to the benefit of a client may be borne by such client. We and our affiliates may use some of the same service providers as are retained on behalf of one or more clients and, in some cases, fee rates, amounts or discounts may be offered to us and our affiliates by a third-party service provider which differ from those offered to a client as a result of scheduled or ad hoc rate changes, differences in the scope, type or nature of the service or transaction, alternative fee arrangements and negotiation.



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

We are subject to a Code of Ethics (the “**Code of Ethics**”) which provides that we are committed to conducting our business in accordance with all applicable laws and regulations and in an ethical and professional manner. In addition, we recognize that we have a fiduciary duty to our clients, and that we must conduct our business in a manner that enables us to fulfill this fiduciary duty. In this regard, we have developed policies and procedures in our Code of Ethics that are premised on fundamental principles of openness, integrity, honesty and trust. In addition, among other things, our Code of Ethics governs all personal investment transactions by our employees, our policies with respect to gifts and entertainment, compliance with certain applicable federal securities laws, the manner in which violations of our Code of Ethics are to be reported, and certain other outside activities of our employees. We will provide a copy of our Code of Ethics to any client or prospective client upon request.

Under our Code of Ethics, we place certain restrictions on the personal trading activities of our employees and their immediate family members. Our employees are required to disclose their personal securities holdings on an initial and annual basis, and their personal securities transactions quarterly. Employees are required to obtain pre-clearance for most personal trades, including transactions in single-name equities and derivatives thereof, initial public offerings and limited offerings (such as hedge funds, private equity funds or other types of private offerings).

Subject to applicable law, we very rarely, but may effect transactions between clients (generally for rebalancing purposes and to correct misallocations of trades) where one client will purchase securities from another client (including a private investment fund or account in which we, our affiliates, principals or employees may have a significant interest). Such transactions (i.e., cross trades) will generally be effected only when we believe that such transactions are in the best interest of the applicable clients. Such transactions will be placed through an unaffiliated broker-dealer or custodian, will not involve any accounts subject to ERISA, and will be effected for cash consideration, at prices that reflect prevailing market conditions or determined in accordance with our valuation policy. In addition, no brokerage commission or transfer fee will be paid to us or our affiliates in connection with any such transaction. Any transaction costs incurred





in connection with any such transaction will be shared *pro rata* between the applicable clients.

In the event that we effect a cross trade between an account in which we or any principal of a member of the Leste Group owns more than twenty five percent (25%) and another client account, such transaction may be deemed to be a principal transaction under the Advisers Act. Such transactions would create a conflict of interest for us because we may put our or our principal's interests in such accounts before the interests of our clients in the other account. We will not affect any cross trades between accounts if we believe that such trade would result in a principal transaction, unless:

- We believe that such transaction is in the best interest of the clients participating in the transaction; and
- We obtain the consent of the applicable clients to the extent required under the Advisers Act.

We may buy or sell securities for one client at the same time that we or our related persons, including Leste Funds for Mr. Hermann's family, buy or sell the same security for one or more other clients (including other Leste Funds). This will typically happen when more than one client is capable of purchasing or selling a particular security based on investment objectives, available cash and other factors. This may create a conflict of interest if one account may benefit from making the trade before or after the other account. We will generally seek to aggregate trades, as described below under "Aggregation of Orders" in Item 12 - "Brokerage Practice" to avoid any such conflict of interest.



## **Item 12 – Brokerage Practices**

### **Selection of Brokers**

In placing portfolio transactions for our client accounts, we seek to obtain the best execution, taking into account some or all of the following factors: execution capability, execution quality, commission rate, financial responsibility and financial services offered, willingness and ability to commit capital, confidentiality, trading expertise, facilities, reputation and integrity, reliability in keeping records, responsiveness, and with respect to a particular trade, the timing and size of the order, available liquidity and market conditions.

Brokers sometimes suggest a level of business they would like to receive in return for the various services they provide. We have not committed to provide any level of brokerage business to any broker to date, and actual brokerage business received by any broker may be less than the suggested allocations, but can (and often does) exceed the suggestions, because total brokerage is allocated on the basis of all the considerations described above.

Our Brokerage Committee will meet on a quarterly basis to evaluate, among other things, the execution performance of the broker-dealers we use to execute client transactions. In conducting our analysis, the committee considers, among other things, the factors listed above, and will review gifts and entertainment received, and certain conflicts of interests (e.g., directing commissions to a broker that a family member is employed by a broker).

### **Research and Other Soft Dollar Benefits**

We currently do not have any soft dollar arrangements in place that would commit our clients to any implied or explicit level of trading, but we may in the future. In the event that we may direct client transactions to a particular broker-dealer in return for soft dollar benefits, we will generally follow the same practices described above when selecting such broker-dealer.



However, we execute securities transactions on behalf of client accounts with broker-dealers that provide us with bundles products or services, such as access to proprietary research reports (such as standard investment research and credit reports). To our knowledge, these products or services are generally made available to all institutional investors doing business with such broker-dealers. These bundled services are made available to us on an unsolicited basis and without regard to the rates of commissions charged or paid by client accounts or the volume of business that we direct to such broker-dealers.

In the event that we will engage in soft dollar transactions in the future, we intend to comply with the safe harbor requirements of Section 28(e) of the Securities Exchange Act of 1934, as amended.

Over the past fiscal year, Leste USA, Leste Florida, LFS, Leste Credit, LGI and Leste Cayman have not acquired research from brokers. We may, however, acquire such research from brokers in accordance with our policies and procedures and applicable law.

Our prime broker(s) generally provide us with certain front and back office services, such as trading, securities lending, clearing, reporting, and settlement for equities, fixed income, foreign currency and options among other services. From time to time we will utilize one or more of the services that are offered to us. Subject to applicable law, our prime brokers may also provide us with capital introduction services. Our clients will pay fees to the prime brokers in accordance with the fee schedules negotiated with such prime brokers.

### **Brokerage for Client Referrals**

Subject to applicable law, we may direct some client brokerage business to brokers who refer prospective investors to the vehicles we manage, consistent with best execution. Because such referrals, if any, are likely to benefit us but will provide an insignificant (if any) benefit to our clients, we have a conflict of interest with our clients when allocating client brokerage business to a broker who has referred investors to us. To prevent client brokerage commissions from being used to pay investor referral fees, we will not allocate client brokerage business to a referring broker unless we determine in good



faith that the commissions payable to such broker are not materially higher than those available from non-referring brokers offering services of substantially equal value to the client account.

### **Trade Error Policy**

Subject to applicable law and the terms of our written agreements with clients, we will reimburse the applicable client account(s) for net losses that occur as a result of trade errors resulting from our gross negligence, willful misconduct or fraud.

We may correct misallocations of trades among client accounts by re-allocating the applicable trade using the intended allocation methodology prior to the trade's settlement date. If an erroneous allocation cannot be corrected prior to or after settlement, we may, if appropriate and subject to applicable law, correct such erroneous allocation by effecting a cross trade between client accounts at the price at which the initial trade was effected.

### **Aggregation of Orders**

We will generally aggregate client trades, subject to best execution. Aggregation, or "bunching," describes a procedure whereby an investment adviser combines the orders of two or more clients into a single order for the purpose of obtaining better prices and lower execution costs. Aggregation opportunities for us generally arise when more than one client is capable of purchasing or selling a particular security based on investment objectives, available cash and other factors. In such event, securities purchased or sold will generally be allocated among client accounts as described above under "Investment Allocation" in Item 6 – "Performance-Based Fee; Side-by-Side Management".

When an aggregated order is only partially filled, we will allocate the investment opportunity as described under "Investment Allocation" in Item 6 – "Performance-Based Fee; Side-by-Side Management".

We may also aggregate subsequent orders for the same security entered during the same day with any previously filled orders. This determination may take into consideration changes in the market price of the security and differences in allocations among accounts.



Clients may pay more to the extent that we do not, or are unable to, aggregate trades, as seeking to place separate, non-simultaneous transactions in the same security for multiple clients may negatively affect market price, transaction commissions and/or trade execution. A client's nonparticipation in bunched trades may result in lost opportunities to purchase securities for such client's account that other clients participating in bunched trades were able to purchase.

### **Third Party Trading**

In a situation where the trade requires access to a particular exchange or market to which a client is not connected to, we may use a third-party trader to execute such trade. Any such third-party trader would be a registered broker-dealer and would be capable (depending on our instructions and/or the exercise of its own discretion) of directly executing trades for our clients or instructing another broker to do so on its behalf. When using a third-party trader, we may select a specific broker that the third party-trader must use to execute the trade in question. Our decision to instruct the third-party trader to use a specific broker (or otherwise) is subject to the broker selection criteria described above.



### Item 13 – Review of Accounts

Client accounts are typically reviewed by the operational team on a daily, weekly or monthly basis, depending on the type of client (e.g., liquid vs. illiquid investments, trading volume), for conformity to the objectives and risk criteria applicable to such accounts, and compliance with any applicable investment guidelines and restrictions.

Investors in the Leste Funds generally will receive a monthly or quarterly account statement and audited financial statements on an annual basis. We also typically distribute tax reports to investors in the Leste Funds.

We have entered, and expect to enter into agreements (“**side letters**”) with one or more Leste Fund investor that result in investment terms that differ from the terms applicable to other investors in such Leste Fund, including, without limitation, with respect to fees, performance-based compensation or allocations. So far, we have not, but in the future may provide particular investors with more frequent and/or more detailed information regarding a Leste Fund’s positions, performance, finances, and management and/or other information about such Leste Fund or us (including, notification of senior employee departures, the commencement of disciplinary actions, legal proceedings, investigations or similar matters, or redemptions from the Leste Funds by us, our affiliates and/or our respective personnel), possibly enabling such investors to better assess the prospects and performance of the Leste Funds. As a result of such side letters, certain investors may receive additional rights and/or information that other investors will not necessarily receive. Subject to applicable law and contractual arrangements, we do not intend to disclose the terms of side letter agreements or other arrangements and do not intend to disclose the identities of the investors that have entered into such agreements with the Leste Funds or us. We will not be required to offer such additional or different rights and terms to any or all other investors.

We may provide certain additional information to any investor, or prospective investor, in a Leste Fund (or to any of our clients or prospective clients) who requests such information. This information may be provided in response to questions and requests and in connection with due diligence meetings and other communications, but will not be distributed to other investors and prospective investors who do not request such information. Such information may affect a prospective investor’s decision to invest, and



investors (which may include our personnel, affiliates and/or clients) who receive such additional information may be able to act on such additional information and redeem their investments potentially at higher values than other investors. Each investor is responsible for asking such questions that it believes are necessary in order to make its own investment decisions and must decide for itself whether the limited information provided by us is sufficient for its needs.

We may provide the owners of other client accounts that we may manage with reports in such forms and at such times as such clients and we may agree.

The custodians of any separately managed accounts that we manage may send account statements to the owners of such accounts. In addition, since a managed account investor would directly own the positions in its separately managed account, such investor could have full, real-time transparency as to all transactions and holdings in such account, and may be better able to assess the future prospects of a portfolio that is substantially similar to the portfolios of the private investment funds managed by us. The investors in such separately managed accounts may have the right to withdraw all or a portion of their capital from such managed accounts on shorter notice and/or with more frequency than the terms applicable to an investment in the private investment funds we manage.



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

Other than the circumstances described above in Item 12 – “Brokerage Practice”, we do not receive any economic benefits from non-clients in connection with the provision of investment advice or other advisory services to our clients.

If a client is introduced to us by a third-party solicitor, we and/or our affiliates may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 under the Advisers Act to the extent applicable. Any such referral fee will be paid solely by us or our affiliates, and will not result in any additional charge to the client, unless the client agrees otherwise in its applicable written agreement with us.





### **Item 15 – Custody**

Client funds and securities are maintained by qualified custodians to the extent required by Rule 206(4)-2 under the Advisers Act. However, for purposes of the Advisers Act, we may be deemed to have custody of certain client assets. The owners of any separately managed accounts over which we have custody will receive account statements from the custodians for such accounts, and are urged to carefully review those statements. To the extent that such account owners were to also receive account statements from us (which currently is not expected), they are urged to compare those statements with the statements that they receive from their custodians.



#### **Item 16 – Investment Discretion**

We have discretionary authority to manage securities accounts on behalf of our clients. Clients give us this discretionary authority when they enter into a written agreement with us. The investors in the private investment funds managed by us generally may not place any limits on our authority beyond the limitations set forth in the offering and governing documents of such private investment funds.

On a case by case basis, clients other than the Leste Funds may negotiate certain risk and/or operating guidelines that we will adhere to when exercising our discretionary authority over such accounts.



## Item 17 – Voting Client Securities

We have the authority to vote proxies on behalf of clients that invest in securities for which proxies are issued. We may delegate the authority to vote proxies for certain client accounts to the extent provided in a written agreement with a particular client.

We are subject to proxy voting policies and procedures that are designed to ensure that in cases where we vote proxies with respect to client securities, such proxies are voted in the best interests of such clients, and that any material conflict of interest between our interests and the interests of our clients will be resolved in a manner that is consistent with the best interests of clients and in a manner not affected by such conflict of interest.

To the extent that we are authorized to vote proxies for a client account, invest in a security for a client account for which a proxy vote may arise and receive timely notice of such proxy from the client's custodian, we will be guided by general fiduciary principles and will seek to act in a manner intended to enhance the overall economic value of the applicable security.

In the absence of specific voting guidelines from the client or conflicts of interest, we will endeavor to vote all proxies in the best interests of each client, which may result in different voting results for proxies for the same issuer, depending on the securities in which our clients are invested, we may not frequently vote proxies. For example, we may refrain from voting a client proxy under certain circumstances, including, but not limited to, when (i) the economic effect on shareholder's interests or the value of the portfolio holding is indeterminable or insignificant; (ii) voting the proxy would unduly impair the investment management process; or (iii) the cost of voting the proxies outweighs the benefits or is otherwise impractical. In addition, we may abstain from voting a proxy on behalf of our clients' accounts due to (1) *de minimis* holdings; (2) *de minimis* impact on the portfolio; (3) contractual arrangements with clients; (4) their authorized delegates or the failure of a proxy to provide sufficient information to allow for informed decision making; and/or items relating to non-U.S. issuers (such as those described below).

We may refrain from voting a proxy of a non-U.S. and/or non-Brazilian issuer due to logistical considerations that may have a detrimental effect on our ability to vote the



proxy. These issues may include, but are not limited to: (a) proxy statements and ballots being written in a foreign language; (b) untimely notice of a shareholder meeting; (c) requirements to vote proxies in person; (d) restrictions on non-U.S. person's ability to exercise votes; (e) restrictions on the sale of securities for a period of time in proximity to the shareholder meeting (e.g., share blocking); or (f) requirements to provide local agents with power of attorney to facilitate the voting instructions.

We currently do not permit clients to direct our vote in a particular solicitation. We may enter into arrangements with clients or other investment managers pursuant to which such clients or managers have responsibility to vote proxies according to their own policies and procedures or wishes (such as in the event that we advise a separately managed account or act as a sub-adviser to a private investment fund managed by a third-party manager).

A client may obtain a copy of our proxy voting policy and procedures upon request, as well as information about how we voted the client's securities, by contacting us at the address on the cover page of this brochure.



#### **Item 18 – Financial Information**

Currently, there is no financial condition that is reasonably likely to impair our ability to meet contractual commitments to our clients.



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

Not applicable.