

# HILDENE

## CAPITAL MANAGEMENT

### **Firm Brochure**

**Form ADV, Part 2A**

**Hildene Capital Management, LLC**  
333 Ludlow Street, South Tower, 5<sup>th</sup> Floor  
Stamford, Connecticut 06902  
Telephone: (203) 517-2500  
Facsimile: (203) 517-2548  
Email: [investorrelations@hildenecap.com](mailto:investorrelations@hildenecap.com)  
Web: [www.hildenecap.com](http://www.hildenecap.com)

**March 31, 2022**

This brochure (this “Firm Brochure”) provides information about the qualifications and business practices of Hildene Capital Management, LLC (“HCM”) and certain of its affiliates that are relying advisers of HCM (all such affiliates, together with HCM, collectively, “Hildene”).

If you have any questions about the contents of this brochure, please contact Lisa Harris, Chief Compliance Officer of Hildene, by telephone at (203) 517-2558 or by email at [lharris@hildenecap.com](mailto:lharris@hildenecap.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.

Hildene is a registered investment adviser. Registration as an investment adviser reflects only that a firm has registered with the SEC and does not imply a certain level of skill or training.

More information about Hildene is available on the SEC’s website at <http://www.adviserinfo.sec.gov>. You can search this site by a unique identifying number, known as a CRD number. Hildene’s CRD number is 160415.

## **ITEM 2: MATERIAL CHANGES**

### **Annual Update**

Hildene is filing an annual updating amendment to its Firm Brochure. This Item 2 summarizes the material changes that have been made to our Firm Brochure since Hildene's last annual update was filed on March 31, 2021 (the "2021 Annual Update").

### **Material Changes Since Last Annual Update**

Since the 2021 Annual Update, the following changes have occurred in respect of Hildene's business and operations:

- On March 1, 2022, HCM announced that it entered into a strategic relationship with Leucadia Asset Management ("Leucadia"), a division of Jefferies Financial Group Inc. In connection with the transaction, Leucadia will acquire a non-controlling financial interest in HCM and will help seed certain new HCM vehicles and businesses. This change is reflected in Item 4 of this Firm Brochure, as well as Item 8.
- Hildene launched the Hildene Private Credit Fund I, LP, with a first close expected in Q2 2022. The fund will invest primarily in a variety of residential mortgages and consumer loans, including residential transitional loans, non-qualified mortgages, prime second lien mortgages, multifamily loans and consumer market place lending. This change is reflected in Item 4 of this Firm Brochure.
- In July 2021, Hildene Credit Fund, LP monetized all existing positions and the fund was wound down. All capital was returned to investors upon completion of the final audit. This change is reflected in Item 4 of this Firm Brochure.
- In January 2021, Hildene launched HCM 2021-1, LLC, a co-investment vehicle established to acquire multifamily credit investments, predominantly "B-pieces" backed by Freddie Mac loans. This change is reflected in Item 4 of this Firm Brochure.
- In March 2021, HCMC III, LLC, a relying adviser of HCM, assumed collateral management rights in respect of one additional collateral debt obligation issuer, Alesco Preferred Funding IX, Ltd. This change is reflected in Item 4 of this Firm Brochure.
- In 2021, the following Trapeza CDOs managed by Hildene Collateral Management Company, LLC were discharged and liquidated pursuant to their terms: (i) Trapeza CDO IV, LLC, (ii) Trapeza CDO V, Ltd., (iii) Trapeza CDO VI, Ltd. and (iv) Trapeza CDO VII, Ltd. These changes are reflected in Item 4 of this Firm Brochure.
- In June 2021, Hildene Structured Advisors, LLC ("HSA"), a relying adviser of HCM, established a new special purpose vehicle in anticipation of a prospective securitization transaction, Hildene TruPS Securitization 2022-5, Ltd. ("HITR 2022-5"), which was subsequently renamed Hildene TruPS Securitization 4, Ltd. ("HITR 4"). This change is reflected in Item 4 of this Firm Brochure.
- Item 5 was updated to enhance disclosures regarding expenses borne by clients.

- Item 8 was updated to reflect disclosures regarding environmental, social and governance risks, catastrophe risks and board participation. Item 8 was also updated to note additional conflicts of interest involving certain affiliate-managed CDOs, including that an affiliate is entitled to fees for its services and such fees will be borne by HCM clients to the extent the clients invest in affiliate-managed CDOs, as well as conflicts regarding clients holding investments in different parts of the capital structure of an issuer.

**Full Brochure Available**

Whenever you would like to receive a complete copy of this Firm Brochure, please contact Lisa Harris, Hildene's Chief Compliance Officer, by telephone at (203) 517-2558 or by email at [lharris@hildenecap.com](mailto:lharris@hildenecap.com).

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## **ITEM 4: ADVISORY BUSINESS**

### **The Firm**

Hildene Capital Management, LLC, a Delaware limited liability company ("HCM"), was founded by Brett Jefferson in January 2008 to take advantage of opportunities in the stressed/distressed structured finance market. HCM is a wholly-owned subsidiary of Hildene Holding Company, LLC ("HoldCo"). In turn, HoldCo is principally owned by Mr. Jefferson. Neither HoldCo nor HCM is publicly owned or traded. On March 1, 2022, HCM announced that it entered into a strategic relationship with Leucadia Asset Management ("Leucadia"), a division of Jefferies Financial Group Inc. In connection with the transaction, Leucadia will acquire a non-controlling financial interest in HCM and will help seed certain new HCM vehicles and businesses.

Hildene Collateral Management Company, LLC ("HCMC I"), a Delaware limited liability company, was founded in December 2016 to provide portfolio and collateral management services to certain issuers of collateralized debt obligations ("CDOs"). HCMC II, LLC ("HCMC II"), a Delaware limited liability company, was founded in October 2018 to provide portfolio and collateral management services to certain issuers of CDOs. HCMC III, LLC ("HCMC III" and, together with HCMC I and HCMC II, collectively, "HCMC"), a Delaware limited liability company, was founded in December 2019 to provide portfolio and collateral management services to certain issuers of CDOs. HCMC I, HCMC II and HCMC III are each a wholly-owned subsidiary of HCMC Holding Company, LLC ("HCMC HoldCo"). HCMC HoldCo is majority beneficially owned by Brett Jefferson and no person other than Mr. Jefferson beneficially owns 25% or more of HCMC HoldCo's equity. None of HCMC HoldCo, HCMC I, HCMC II nor HCMC III are publicly owned or traded.

Hildene Structured Advisors, LLC ("HSA"), a Delaware limited liability company, was founded in October 2017 to provide portfolio and collateral management services primarily to new issue CDOs sponsored by HSA. HSA is a wholly-owned subsidiary of HoldCo, and is not publicly owned or traded.

Each of HCMC I, HCMC II, HCMC III and HSA are included in Form ADV, Schedule R, as relying advisors, and are referred to individually herein as a "CM Affiliate" and collectively herein as "CM Affiliates."

### **Types of Advisory Services**

HCM provides continuous investment management services on a fully discretionary basis to a diverse array of clients, including institutions and pooled investment vehicles and in limited circumstances, non-discretionary investment management services. Services provided are consistent with each client's investment guidelines as noted in the applicable investment management agreement and/or offering documents.

HCM primarily provides advice with respect to structured finance opportunities such as collateralized debt obligations (CDOs), collateralized loan obligations (CLOs), residential mortgage-backed securities (RMBS), and other types of debt securities or debt obligations backed by the payments from pools of fixed income instruments. HCM also advises clients on other types of fixed income and equity securities, including, without limitation, trust preferred securities issued by bank and insurance holding companies and real estate investment trusts, high yield bonds, syndicated bank loans, mortgage loans, common and preferred equity of various issuers, consumer loans, multifamily loans and other types of investments. HCM

specializes in complex financial instruments and uncovering overlooked long-term value opportunities within inefficient markets. With a disciplined, systematic approach, HCM seeks to achieve high risk-adjusted returns through calculated investments at deeply discounted fundamental values in dislocated markets. Structured finance investments and other types of investments that HCM advises on can be complex, opaque and require specialized expertise to analyze.

HCM provides its investment management services through a variety of vehicles, including private funds and separate accounts. A description of the advisory services HCM provides in respect of these vehicles is as follows.

*Hildene Opportunities Master Fund, Ltd. ("HOF")*

HOF was launched in May 2008 for the purpose of investing and trading primarily in structured finance securities including collateralized debt obligations, collateralized loan obligations, mortgage-backed securities, asset-backed securities, bank debt, special situations, high-yield bonds and special situation equity securities. HOF is part of a "master-feeder" fund structure comprised of investments by two feeder funds, Hildene Opportunities Fund, LP, a Delaware limited partnership established for U.S. taxable investors, and Hildene Opportunities Offshore Fund, Ltd., a Cayman Islands-based corporation established for non-U.S investors and U.S. tax-exempt investors.

HOF's investment objective is to achieve absolute risk-adjusted returns over an extended period of time with a minimum correlation to the broadly-based stock and bond indices. HOF invests primarily in CDOs backed by trust-preferred securities ("TruPS") issued by small and regional financial institutions in the United States (including CDOs managed by affiliates of HCM).

HOF invests in securities that are complex and illiquid, and leverage is used in an effort to enhance returns.

*Hildene Opportunities Master Fund II, Ltd. ("HOF II")*

HOF II was launched in August 2011 for the purpose of investing and trading primarily in credit-related opportunities including small and medium-sized corporate credits, single name credits, CLOs, seasoned residential mortgage-backed securities, asset-backed securities, bank debt, special situations, high-yield bonds, seasoned ABS CDOs, CRE CDOs, TruPS CDOs and other structured credit investments (including CDOs managed by affiliates of HCM). HOF II is part of a "master-feeder" fund structure comprised of investments by two feeder funds, Hildene Opportunities Fund II, LP, a Delaware limited partnership established for U.S. taxable investors, and Hildene Opportunities Offshore Fund II, Ltd., a Cayman Islands-based corporation established for non-U.S investors and U.S. tax-exempt investors.

HOF II's investment objective is to achieve absolute risk-adjusted returns over an extended period of time with a minimum correlation to the broadly-based stock and bond indices. To do this, HOF II primarily invests in credit-based securities, applying a thorough and multi-faceted fundamental valuation of the underlying structure. This entails an in-depth analysis of the legal components, a detailed analysis of the underlying cash flows and a thorough understanding of the overall credit risk of the underlying investment.

HOF II invests in securities that are complex and illiquid, and leverage is used in an effort to enhance returns.

#### Hildene Private Credit Fund I, LP ("HPCF")

HPCF was launched in January 2022, with a first close expected in Q2 2022, for the purpose of investing and trading primarily in a variety of residential mortgages and consumer loans, including residential transitional loans, non-qualified mortgages, prime second lien mortgages, multifamily loans and consumer market place lending. HPCF's investment objective is to achieve absolute risk-adjusted returns with low correlation to traditional fixed income and equity benchmarks through a combination of current income and capital appreciation.

HPCF invests in securities that are complex and illiquid, and leverage may be used in an effort to enhance returns.

#### Hildene Credit Fund, LP ("HCF")

HCF was launched in May 2020 for the purpose of investing and trading primarily in a long-biased portfolio of credit-related assets, including the senior, mezzanine and equity tranches of CLOs, as well as CLO warehouses and single name credits. HCF's investment objective was to achieve absolute risk-adjusted returns by opportunistically investing and trading in a long-biased portfolio of credit-related assets.

In July 2021, HCF monetized all existing positions and the fund was wound down. All capital was returned to investors in December 2021, after completion of the final audit.

#### Other Private Funds

In addition to HOF, HOF II and HPCF, HCM may also from time to time manage other private funds which utilize investment strategies that may or may not be similar to strategies employed by HCM on behalf of HOF, HOF II and/or HPCF.

#### Co-Investment Vehicles

In January 2021, Hildene launched HCM 2021-1, LLC, a co-investment vehicle established to acquire multifamily credit investments, predominantly "B-pieces" backed by Freddie Mac loans.

#### Separate Accounts

HCM manages separate accounts for institutional clients. These separate accounts invest primarily in structured finance opportunities, including CDOs and CLOs, preferred stock and sub-debt issued by banks or bank holding companies, high yield bonds, and other types of credit-related assets. Specific investment strategies employed by HCM in connection with any separate account are memorialized in an advisory services contract with the account holder.

Notwithstanding the foregoing, HCM generally retains the authority to invest and trade on behalf of its clients in a wide variety of instruments and securities of all kinds and descriptions, whether privately placed or publicly traded, including, but not limited to, common or preferred stock, bonds and other debt securities (including U.S. government and agency securities), convertible securities, accounts receivable, notes, interests in other investment funds and vehicles, loans and loan participations (including second lien

or mezzanine loans on a secured or unsecured basis), instruments issued by distressed companies, limited partnership or limited liability company interests, repurchase agreements with respect to any securities, mutual fund shares, closed-end investment funds, options, warrants, commodities, futures contracts, currencies (including forward contracts therein), derivative products of all types (including interest rate and currency derivatives, total return swaps, credit default swaps and other types of swaps, forward contracts and structured/indexed securities), monetary instruments and cash and cash equivalent investments.

#### **Tailored Advice and Investment Restrictions**

HCM offers investment strategies through a variety of vehicles, including separate accounts and private funds. HCM may agree to tailor its advice in respect of separate account clients on a client-by-client basis, and may agree to impose reasonable restrictions on the types of investments made on behalf of such account. HCM's investment advice in respect of the private funds it manages is governed by the offering materials and governing documents of such funds, and is not tailored to specific investors in such funds.

On occasion, investment opportunities may be identified which are larger than existing capacity for a fund. In such circumstances, HCM may allow specific clients and/or fund investors to participate directly in such investments, either on a standalone basis or alongside an investment by the fund. Any such opportunities are presented only to individual clients or fund investors who are sophisticated enough to understand both the risks of the investment and the risk to the client from direct exposure to the same investment held within the fund. Such opportunities may also be offered to prospective clients.

#### **Relying Advisers**

##### **Hildene Collateral Management Company, LLC**

HCMC I is primarily engaged in the business of providing portfolio and collateral management services to various CDO issuers. HCMC I currently acts as collateral manager for the following CDO issuers: Trapeza CDO I, LLC, Trapeza CDO III, LLC, Trapeza CDO IX, Ltd., Trapeza CDO X, Ltd., Trapeza CDO XI, Ltd., Trapeza CDO XII, Ltd. and Trapeza CDO XIII, Ltd. (collectively, the "Trapeza CDOs"); and Alesco Preferred Funding X, Ltd., Alesco Preferred Funding XI, Ltd., Alesco Preferred Funding XII, Ltd., Alesco Preferred Funding XIII, Ltd., Alesco Preferred Funding XIV, Ltd., Alesco Preferred Funding XV, Ltd., Alesco Preferred Funding XVI, Ltd. and Alesco Preferred Funding XVII, Ltd. (collectively, with Alesco Preferred Funding IX, Ltd., the "Alesco CDOs"). Hildene previously served as collateral manager to Trapeza CDO IV, LLC, Trapeza CDO V, Ltd., Trapeza CDO VI, Ltd. and Trapeza CDO VII, Ltd., which were discharged and liquidated pursuant to their terms in 2021. The management rights in respect of the Trapeza CDOs were acquired from Trapeza Capital Management, LLC and its affiliates between March 6, 2017 and June 8, 2017. The management rights in respect of the Alesco CDOs were acquired from affiliates of Fortress Investment Group LLC on November 27, 2018. The Trapeza CDOs and Alesco CDOs are each governed by an indenture and collateral management agreement that sets forth the manner in which each CDO is to be managed, including types of eligible collateral, investment objectives and risk criteria. Other advisory clients of Hildene invest in securities issued by the Trapeza CDOs and the Alesco CDOs, and are subject to applicable management and incentive fees as specified in the respective governing documents.



### HCMC II, LLC and HCMC III, LLC

HCMC II and HCMC III are primarily engaged in the business of providing portfolio and collateral management services to various CDO issuers. HCMC II currently acts as collateral manager for the following CDO issuers: Taberna Preferred Funding III, Ltd., Taberna Preferred Funding IV, Ltd., Taberna Preferred Funding VI, Ltd., Taberna Preferred Funding VII, Ltd., Taberna Preferred Funding VIII, Ltd. and Taberna Preferred Funding IX, Ltd. (the “HCMC II Taberna CDOs”). HCMC III currently acts as collateral manager for the following CDO issuers: Taberna Preferred Funding I, Ltd., Taberna Preferred Funding II, Ltd. and Taberna Preferred Funding V, Ltd. (together with the HCMC II Taberna CDOs, collectively, the “Taberna CDOs”). HCMC III also serves as collateral manager for Alesco Preferred Funding IX, Ltd. (“Alesco IX”), which HCMC III assumed the management rights to on March 15, 2021. The management rights in respect of the Taberna CDOs were acquired from affiliates of Fortress Investment Group LLC on March 26, 2020. The Taberna CDOs and Alesco IX are each governed by an indenture and collateral management agreement that sets forth the manner in which each CDO is to be managed, including types of eligible collateral, investment objectives and risk criteria. Other advisory clients of Hildene invest in securities issued by the Taberna CDOs and Alesco IX, and are subject to applicable management and incentive fees as specified in the respective governing documents.

### Hildene Structured Advisors, LLC

HSA is primarily engaged in the business of providing portfolio and collateral management services to new issue CDOs sponsored by HSA. To date, HSA has sponsored five securitization transactions: Hildene TruPS Securitization 2018-1, Ltd. (“HITR 2018-1”); Hildene TruPS Securitization 2019-2, Ltd. (“HITR 2019-2”); Hildene TruPS Securitization 2020-3, Ltd. (“HITR 2020-3”); Hildene TruPS Resecuritization 2019-P10B, LLC (“HITRR P10B”); and Hildene TruPS Resecuritization 2019-P12B, LLC (“HITRR P12B”). HSA has also sponsored and currently manages three other pre-securitization warehouse vehicles in anticipation of one or more future securitization transactions: Hildene TruPS Securitization 4, Ltd. (previously known as Hildene TruPS Securitization 2022-5, Ltd.) (“HITR 4”); HITR Quattro, Ltd. (previously known as Hildene TruPS Securitization 2021-4, Ltd.) (“HITR Quattro”); and Hildene Financials Securitization 2020-1, Ltd. (“HIFI 2020-1”). HSA also provides portfolio and collateral management services to a CDO issuer, Hildene Community Funding CDO, Ltd. (“HCOMF”, together with HITR 2018-1, HITR 2019-2, HITR 2020-3, HITR 4, HITRR P10B, HITRR P12B, , HITR Quattro and HIFI 2020-1, collectively, the “HSA CDOs”), the management rights in respect of which were acquired from StoneCastle Investment Management, LLC on August 4, 2020. HSA has entered into an investment management agreement, collateral management agreement and/or collateral servicing agreement with each of the HSA CDOs that, together with any applicable indentures, sets forth the manner in which each HSA CDO is to be managed, including types of eligible collateral, investment objectives and risk criteria. HSA is responsible for the selection of any securities to be acquired and held by each of the HSA CDOs as collateral. Certain clients of Hildene, including HOF, HOF II and certain separately managed accounts, invest in one or more of the HSA CDOs, and will likely invest in future warehouses or CDOs sponsored or managed by HSA, provided that such clients will not be subject to any underlying management or incentive fees charged by HSA.

### Wrap Fee Programs

Hildene does not offer or participate in any wrap fee programs.

### *Client Assets Under Management*

As of December 31, 2021, Hildene managed client assets on a discretionary basis in the approximate amount of \$12,357,716,000, including (i) approximately \$2,909,570,000 of hedge fund and separately managed account assets managed by HCM; (ii) approximately \$8,331,070,000 aggregate par notional value of collateralized debt obligations managed by HCMC; and (iii) approximately \$1,117,076,000 aggregate par notional value (or fair value, if available) of collateralized debt obligations ("Sponsored CDO AUM") managed by HSA. To avoid double-counting of client assets under management, Sponsored CDO AUM excludes the fair market value of securities issued by HSA-sponsored CDOs that are retained by other Hildene clients. As of December 31, 2021, Hildene managed approximately \$10,296,000 client assets on a non-discretionary basis.

## **ITEM 5: FEES AND COMPENSATION**

HCM charges a management fee to clients based on a percentage of assets the client has supervised by HCM. The standard management fees charged to clients range from 1% per annum to 2% per annum. Management fees are generally deducted from the assets managed by HCM on behalf of a client on a quarterly basis, in advance; provided that certain separately managed account clients pay management fees on a less frequent basis. Management fees are negotiable depending on the size of the client's investment and/or the client's investment strategy. HCM may also elect to waive any management fees payable by any investor or client. Management fees are typically non-refundable once paid, though Hildene may negotiate with a client to refund a pro rata portion of management fees paid in advance in respect of certain separately managed accounts in the event such account is terminated during the applicable fee period. As discussed in Item 6, HCM also typically receives an incentive fee or allocation based on the performance of each account for which it provides investment management services, subject to a high-water mark.

HCMC receives base collateral management fees equal to between 0.10% to 0.25% per annum of the collateral balance of each CDO it manages. However, some portions of HCMC's fees may be payable only after certain levels of payments have been made to the holders of securities issued by the CDO. In addition, HCMC may receive a subordinated collateral management fee of between 0.10% and 0.20% per annum of the collateral balance of the CDO, including any previously accrued but unpaid subordinate collateral management fees, and may also receive performance fees as discussed in Item 6 below.

All fees attributable to the Trapeza CDOs, Alesco CDOs and Taberna CDOs are paid quarterly (or, for some Trapeza CDOs, biannually) to HCMC by an independent trustee for the CDO in accordance with the terms of the applicable indenture. Management fees attributable to the Trapeza CDOs, Alesco CDOs and Taberna CDOs are calculated by the trustee and confirmed by HCMC. HCMC does not require the CDOs to pay fees in advance.

HSA does not currently charge any fees in respect of the services it provides to any of the HSA CDOs. HSA may in the future charge a management fee and/or an incentive fee in respect of CDOs for which it provides collateral management services.

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

Other than management fees and the incentive fees discussed above and in Item 6 below, neither HCM nor its relying advisers receives any additional fees from clients for its services.

In addition to management fees and incentive fees, funds and separate accounts managed by HCM and its relying advisers incur certain fees and expenses in connection with the provision of investment advisory services. As provided in a client's account documents, clients may bear expenses such as administrator fees, custodian/settlement agent fees, insurance, research, organizational expenses, accounting/audit fees, taxes, legal fees and transaction costs. See Item 12 Brokerage Practices, for a description of transaction costs borne by clients and client accounts.

Expenses incurred by a client are generally paid directly by the client, but Hildene may pay the expenses directly and seek reimbursement from the applicable client. Certain costs and expenses may be incurred

for the benefit of, or be shared by, multiple clients, including clients which are not eligible to bear such costs and expenses. Such shared expenses generally will be allocated across the applicable clients pro rata based on relative assets under management or in such other manner as Hildene deems appropriate. Hildene will bear the portion of such shared costs and expenses otherwise allocable to clients who benefit from, but are not eligible to pay, such shared costs and expenses.

## **ITEM 6: PERFORMANCE BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

HCM receives an incentive fee or allocation based on the performance of each account for which it provides investment management services. This performance-based payment is payable either directly to HCM or to an affiliate of HCM. The standard incentive payment for clients ranges from 15% to 20% per annum, subject to a high-water mark. Incentive fees are negotiable depending on the size of the client's investment. HCM seeks to align its incentive fees with investors and has committed with certain investors to classify certain amounts of incentives as unearned redemption payments that are not earned or payable until capital is withdrawn or redeemed by the investor. Each client paying an incentive fee to HCM must qualify as a "qualified client" under Rule 205-3 promulgated under the Investment Advisers Act of 1940, as amended (the "Advisers Act").

Earned incentive payments are deducted from a client's assets at the end of each year and/or upon each withdrawal of capital by a client, and, in the case of private funds managed by HCM, are typically treated as an allocation by such fund to HCM or its affiliates.

HCM may manage its own accounts or the accounts of an affiliate of HCM (an "Affiliated Account") alongside client accounts on a side-by-side basis. Affiliated Accounts and client accounts may have similar investment objectives, investment guidelines and investment limitations, and certain investment opportunities considered by HCM may be suitable for both clients and Affiliated Accounts. In such circumstances, in accordance with HCM's trade allocation policy, HCM shall first allocate such opportunities to HCM's clients for whom allocation would be appropriate, in such amounts as may be appropriate, prior to allocating such opportunities to any Affiliated Accounts. In any circumstance involving the side-by-side management of client accounts and Affiliated Accounts, HCM shall always put client accounts first. HCM has adopted the foregoing policy to ensure the fair and equitable allocation of investment opportunities among clients and Affiliated Accounts.

HCM also manages client accounts (including private funds and separately managed accounts) on a side-by-side basis. For more information, please see "Allocation of Trades" in Item 12 below.

HCMC charges a performance fee of between .15% and .25% per annum to certain of the Trapeza CDOs and Alesco CDOs it manages, as set forth in the applicable indenture and collateral management agreement. The performance fee is payable when the equity class of securities of the CDO has achieved a specified return on investment.

HSA does not currently charge any fees in respect of the services it provides to any of the HSA CDOs. HSA may in the future charge a management fee and/or an incentive fee in respect of CDOs for which it provides collateral management services.

## **ITEM 7: TYPES OF CLIENTS**

HCM offers discretionary investment management services to private funds, including HOF, HOF II and HPCF, and to separate accounts. Investors are generally institutional clients, such as banks, insurance companies, pension funds, corporations and other business entities, as well as family offices, endowments, trusts and high net worth individuals through private funds.

HCM generally requires a minimum investment of \$1,000,000 from investors in its private funds and a minimum investment of \$50,000,000 from separate account clients. Occasionally, investments less than these amounts are accepted by HCM from “friends and family” and other investors and clients, as determined by HCM in its discretion. Prospective investors should refer to the appropriate fund offering documents or separate account advisory contract, as the case may be, for additional qualification requirements for investment.

HCMC provides portfolio and collateral management services to the Trapeza CDOs, Alesco CDOs and Taberna CDOs. Certain private funds and separate accounts managed by HCM are also investors in the Trapeza CDOs, Alesco CDOs and Taberna CDOs managed by HCMC.

HSA provides portfolio and collateral management services to the HSA CDOs. Certain private funds and separate accounts managed by HCM are also investors in the HSA CDOs managed by HSA.

## **ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **Methods of Analysis and Investment Strategy**

HCM primarily provides advice regarding structured finance opportunities, including CDOs, CLOs, RMBS, and other types of debt securities backed by the payments from pools of fixed income instruments. HCM also advises clients on other types of fixed income and equity securities, including, without limitation, trust preferred securities issued by bank and insurance holding companies and real estate investment trusts, high yield bonds, syndicated bank loans, mortgage loans, common and preferred equity of various issuers, consumer loans and other types of investments. HCM's investment ideas are generated from a wide variety of sources.

HCM uses a bottom-up approach that analyzes each investment opportunity from a fundamental and technical perspective, evaluating innate structural value, net asset value, liquidation value and other fundamental and technical factors. Using this approach, HCM purchases instruments and securities that it believes are mispriced because of either their complexity or a technical component in the marketplace. Ultimate value is achieved through a long-term view that focuses on the general realization of value in the underlying assets. HCM believes that performance is best achieved when understanding all the macroeconomic components of the overall market and dissecting microeconomic drivers that define a structure or company.

HCM typically gathers information about an investment from a number of sources including, but not limited to, trustee reports, syndicated software, issuers, customers, vendors, suppliers, competitors, consultants, advisors, dealers and industry executives. Through these channels of communication, HCM is often alerted to relevant news, nuances and information that may enhance the effectiveness of its investment analysis. HCM also gathers information from public filings (10-K's, 10-Q's, 8-K's, 13-G's, etc.), trade and financial publications, publication search engines, yield rankings, valuation screens, corporate action calendars, investment conferences and other available information sources.

HCM's due diligence is founded on an in depth knowledge of underlying structural nuances. A thorough analysis of the expected result based on financial engineering and an overall understanding of the terminal value and risks of the underlying credits of a specific company are utilized in decision-making.

HCMC monitors the portfolio investments of the Trapeza CDOs, Alesco CDOs and Taberna CDOs to evaluate their performance. However, because the reinvestment period has ended with respect to each of the Trapeza CDOs, Alesco CDOs and Taberna CDOs, HCMC is not actively making new portfolio investments on behalf of the Trapeza CDOs, Alesco CDOs or Taberna CDOs. In monitoring portfolio investments with respect to the Trapeza CDOs, Alesco CDOs and Taberna CDOs, HCMC analysts review a variety of sources for information including, but not limited to, financial newspapers and magazines; inspections of and meetings with portfolio companies; third party research materials; corporate rating services; company press releases; and corporate regulatory filings.

For new issue CDOs, HSA has discretionary authority over each HSA CDO's assets during the pre-securitization warehouse period and is responsible for the selection of any securities to be acquired and held in each of the warehouses. Post-securitization, HSA monitors the portfolio investments of the HSA CDOs to evaluate their performance. However, because the new issue HSA CDOs (other than HCOMF) are comprised of static portfolios, HSA does not make new portfolio investments on behalf of the HSA

CDOs after securitization. HCOMF was reset in November 2020, and post-reset, there is a two year reinvestment period. HSA has discretionary authority and is responsible for asset selection of any securities to be acquired and held during HCOMF's reinvestment period. In monitoring portfolio investments with respect to the HSA CDOs, HSA analysts review a variety of sources for information including, but not limited to, financial newspapers and magazines; inspections of and meetings with portfolio companies; third party research materials; corporate rating services; company press releases; and corporate regulatory filings.

### Summary of Material Risks

Hildene invests in securities that are complex and may be distressed. Prices of securities react to the business and financial condition of the company that issued them as well as macro-economic factors. Prices of a security will generally rise and fall based on changes in the business or financial condition of the issuing company, changes in management and the potential for merger and acquisitions.

Investing in any security entails risk of loss, particularly when the securities are complex or distressed. Hildene has listed certain risks below; however the list of risks is not comprehensive or complete. Clients are strongly advised to review the risk factors and potential conflicts of interest contained in the relevant offering materials, organizational documents and/or investment management agreements relating to their investments with Hildene.

The investment strategies that Hildene employs for its clients entail various risks, including, but not limited to, the following:

- Structured Finance Securities. The investment strategies employed by Hildene involve investing and trading in structured finance products. Investing in structured finance securities entail a variety of unique risks. In addition, the performance of a structured finance security will be affected by a variety of factors, including its priority in the capital structure of the issuer thereof, the availability of any credit enhancement, the level and timing of payments and recoveries on and the characteristics of the underlying receivables, loans or other assets that are being securitized, remoteness of those assets from the originator or transferor, the adequacy of and ability to realize upon any related collateral and the capability of the servicer of the securitized assets.
- Distressed Securities. The investment strategies employed by Hildene may involve investing in distressed securities or underperforming or non-performing debt. Distressed debt securities are subject to the significant risk of an issuer's inability to meet principal and interest payments on the obligations (credit risk) and also may be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (market risk). Distressed securities may react to developments affecting market and credit risk to a greater extent than non-distressed securities. In addition, certain types of distressed securities involve bankruptcy risks, including with respect to securities purchased after an issuer emerges from a bankruptcy reorganization. With respect to post-reorganization securities, such securities typically entail a higher degree of risk than investments in securities of companies which have not undergone a reorganization or restructuring. Moreover, post-reorganization securities can be subject to increased selling or downward pricing pressure after the completion of a bankruptcy reorganization or restructuring. If Hildene's evaluation of the anticipated outcome of an investment situation should prove incorrect, clients holding such investment could experience a loss.



- Concentration of Investments. The investment strategies employed by Hildene may be concentrated and may involve investing in a small number of investments. The allocation of a large portion of an account's capital to one or a small number of investments could increase the risk of investing in the account because of the lack of diversification in its portfolio. The concentration of an account's portfolio in any one issuer, industry or strategy would subject such account to a greater degree of risk with respect to the failure of one or a few issuers or with respect to economic downturns in relation to such industry.
- Leverage. Hildene uses leverage in connection with the investment strategies employed for certain clients, including the use of borrowed funds and investments in certain types of options. Hildene may also employ leverage through the use of total return swaps or credit default swaps, or through repurchase transactions. While such strategies and techniques increase the opportunity to achieve higher returns on the amounts invested, they also increase the risk of loss. To the extent a client purchases securities with borrowed funds, its net assets will tend to increase or decrease at a greater rate than if borrowed funds are not used. The level of interest rates generally, and the rates at which such funds may be borrowed in particular, could affect the performance of a client's account. If the interest expense on borrowings were to exceed the net return on the portfolio securities purchased with borrowed funds, the use of leverage would result in a lower rate of return than if the applicable account were not leveraged.
- Limited Liquidity. The investment strategies employed by Hildene may involve investing in assets that are illiquid or have limited liquidity. At times, Hildene may be unable to realize certain of its illiquid investments, or would only be able to realize such investments at a value determined by Hildene to be a discount to their true value. If an investment is thinly traded or is not traded at all, Hildene could have difficulty unwinding the investment at a desirable price. If invested in illiquid assets, a client's account might suffer significant losses if forced to unwind an illiquid investment as a result of changing market conditions, margin calls or other factors.
- Investments in Undervalued Securities. The investment strategies employed by Hildene may involve investing in undervalued securities. The identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in undervalued securities offer the opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from these investments may not adequately compensate for the business and financial risks assumed. Hildene may make certain speculative investments in securities which Hildene believes to be undervalued, however, there are no assurances that the securities purchased will in fact be undervalued. In addition, Hildene may be required to hold such securities for a substantial period of time before realizing their anticipated value.
- Discontinuation of LIBOR. It is expected that the U.S. dollar London Interbank Offered Rate ("LIBOR"), which is commonly used as a reference rate within various financial contracts (any such rate, a "Reference Rate"), will not be published after June 30, 2023 (other than the one-week and two-month tenors, which are no longer being published as of December 31, 2021). In anticipation of the end of LIBOR, the United States and other countries are currently working to replace LIBOR with alternative Reference Rates. As a general matter, the expected discontinuation of LIBOR may significantly impact financial markets; specifically, discontinuation may impact financial contracts

to which a client is a party. Generally, the transition to alternative Reference Rates may (i) cause the value of a Reference Rate to be uncertain or to be lower or more volatile than it would otherwise be; (ii) result in uncertainty as to the functioning, liquidity or value of certain financial contracts; (iii) involve actions of regulators or rate administrators that adversely affect certain markets or specific financial contracts; and (iv) impact the strategy, products, processes, legal positions and information systems of market participants, including a client and its counterparties. With respect to financial contracts to which a client is a party, which may include corporate and municipal bonds and loans, consumer loans, bank loans, floating rate debt, certain asset-backed securities, and interest rate swaps and other derivatives, any such contract that has a maturity that extends beyond June 2023 and uses LIBOR as a Reference Rate (other than contracts that include curative fallback language or other curative mechanisms) may need to be renegotiated, the process of which will consume client resources and may result in disputes among counterparties, the result of which may be adverse to the client. Considered in their entirety, the impacts of the discontinuation of LIBOR on financial markets generally and on the specific financial contracts to which a client is a party may adversely affect performance of client accounts.

- *Coronavirus Risks.* In December 2019, the virus SARS-CoV-2, which causes the coronavirus disease known as COVID-19, began to spread around the world, resulting in the temporary closure of many corporate offices, retail stores, and manufacturing facilities across the globe, as well as the implementation of travel restrictions and remote working and “shelter-in-place” or similar policies by numerous companies and national and local governments. These actions caused the disruption of manufacturing supply chains and consumer demand in certain economic sectors, resulting in significant disruptions in local and global economies. Such disruptions continue to be felt, as many countries and U.S. states struggle to contain the virus and its variants. The short-term and long-term impact of COVID-19 on the operations of Hildene and the performance of any account is difficult to predict. Any potential impact on such operations and performance will depend to a large extent on future developments and actions taken by authorities and other entities to contain COVID-19 and its economic impact. These potential impacts, while uncertain, could adversely affect performance.
- *Environmental, Social, Governance Risks.* Hildene recognizes the importance of considering environmental, social and governance (“ESG”) factors in the investment process, and has developed an ESG policy to inform investment decisions with regard to these factors. HCM seeks to understand the impact ESG factors and sustainability risk can have on credit analysis and company performance. Hildene evaluates the relevance and materiality of these risks differently between clients and strategies.
- *Catastrophe Risks.* Clients may be subject to the risk of loss arising from direct or indirect exposure to various catastrophic events, including the following: hurricanes, earthquakes and other natural disasters; war, terrorism and other armed conflicts; cyberterrorism; major or prolonged power outages or network interruptions; and public health crises, including infectious disease outbreaks, epidemics and pandemics. To the extent that any such event occurs and has a material effect on global financial markets or specific markets or issuers in which Hildene clients invest (or has a material negative impact on the operations of Hildene or the client’s service providers), the risks of loss can be substantial and could have a material adverse effect on the client and its investments.
- *Board Participation.* Hildene employees serve as directors of certain portfolio investments of clients and, as such, have duties to persons other than the investing client. Although holding board

positions could be important to a client's investment strategy, these positions can also impair Hildene's ability to sell the applicable asset due to the duties imposed on board members or the receipt of material nonpublic information in connection with the position. Hildene may be subject to claims it would not otherwise be subject to as an investor, including claims of breach of duty of loyalty, securities claims and other director related claims. Should Hildene or its employees receive compensation for a board position, that compensation will be paid to the relevant clients.

**Conflicts of Interest Involving Affiliate-Managed CDOs.** Various potential and actual conflicts of interest may arise from the overall advisory, investment and other activities of HCM, in its role as investment manager of private funds and separate accounts, and HCMC, in its role as collateral manager of CDOs, including the Trapeza CDOs, Alesco CDOs and Taberna CDOs (collectively, the "HCMC-managed CDOs"). HCM and its affiliates own, or advise private funds and separate accounts that own, equity or debt securities issued by CDOs for which HCMC acts as collateral manager. In particular, HOF and certain separate accounts managed by HCM own equity or debt securities issued by the Trapeza CDOs and Alesco CDOs, and HOF II and certain separate accounts managed by HCM own equity or debt securities issued by the Taberna CDOs. HCMC is entitled to fees for its services and such fees will be borne by the funds to the extent the funds invest in HCMC-managed CDOs. HCM and HCMC will endeavor to resolve any conflicts in a manner that HCM and HCMC deem equitable under the facts and circumstances.

In addition, various potential and actual conflicts of interest may also arise from the overall advisory, investment and other activities of HCM, in its role as investment manager of private funds and separate accounts, and HSA, in its role as collateral manager or collateral servicer of the HSA CDOs (together with the HCMC-managed CDOs, the "Affiliate-Managed CDOs"). In particular, HOF, HOF II and certain separate accounts managed by HCM own equity or debt securities issued by the HSA CDOs. HCM and HSA will endeavor to resolve any conflicts in a manner that HCM and HSA deem equitable under the facts and circumstances.

Such potential and actual conflicts of interest involving Affiliate-Managed CDOs include, but are not limited to, the following:

- Material Non-Public Information. In its role as collateral manager or collateral servicer of an Affiliate-Managed CDO, a CM Affiliate and personnel working on its behalf ("CM Personnel") may be exposed to material, non-public information ("MNPI") relating to one or more Affiliate-Managed CDOs or the assets constituting collateral therein. To address the compliance risk of MNPI, Hildene has implemented procedures to prevent the dispersion of MNPI relating to Affiliate-Managed CDOs to individuals involved in making investment decisions for clients. However, if Hildene determines that these controls are insufficient to prevent such dispersion, the client may be prohibited from trading in certain Affiliate-Managed CDOs or certain of the assets constituting collateral therein during "black out" periods while CM Personnel have access to such MNPI.
- Voting and Corporate Actions relating to Affiliate-Managed CDOs and Collateral. In circumstances where votes are required from the securityholders of an Affiliate-Managed CDO (e.g., in connection with the optional redemption of an Affiliate-Managed CDO), a potential conflict of interest may arise between a client, on one hand, and one or more private funds, separate accounts or other clients or accounts managed by HCM or its CM Affiliates (including proprietary accounts of HCM or its affiliates) (collectively, "Other Hildene Accounts"), on the other hand, if, for example, a client holds securities of an Affiliate-Managed CDO that are of a different class than the class of securities held by Other Hildene Accounts in the same Affiliate-Managed CDO.

Additionally, Affiliate-Managed CDOs may hold securities of an issuer in its underlying collateral pool (the “Collateral”) that are of a different class or type than the class or type of securities of the same issuer held by a client either directly or indirectly through a CDO, including another Affiliate-Managed CDO. This would potentially result in the client being senior or junior to an Affiliate-Managed CDO in the capital structure of such entity, which could mean that in a workout or other distressed scenario, an Affiliate-Managed CDO might be adverse to the client, and might recover all or part of its investment while the client might not. In such circumstances, to the extent possible, HCM and its CM Affiliates will attempt to vote such securities held by each of their clients in a manner that serves the best interests of such client.

- Certain Matters Relating to Collateral. Collateral held by an Affiliate-Managed CDO may be acquired prior to the securitization of such CDO in cross trades from one or more Other Hildene Accounts. A CM Affiliate may also direct an Affiliate-Managed CDO to dispose of Collateral in cross trades between the CDO and one or more Other Hildene Accounts, in accordance with applicable legal and regulatory requirements, and as permitted by the governing documents of the CDO and such Other Hildene Accounts. Additionally, if a client directly owns the same class and type of securities of an issuer that are also held by an Affiliate-Managed CDO as Collateral, HCM or the applicable CM Affiliate may determine it is in the best interest of the client to dispose of such securities at the same time, or at a different time, as the CDO. In such cases, HCM and/or its CM Affiliates may have a conflicting division of loyalties and responsibilities. Under certain circumstances, HCM or a CM Affiliate may determine it is appropriate to avoid such conflicts by selling Collateral at a fair value that has been calculated pursuant to Hildene’s valuation procedures to Other Hildene Accounts or to a third-party. Hildene may engage in cross trades of Collateral at any time that it believes such transaction to be fair to the Affiliate-Managed CDO and to the Other Hildene Accounts involved in such transaction, subject to the governing documents of such CDO and of such Other Hildene Accounts. Additionally, in the event an Affiliate-Managed CDO sells Collateral at an auction, liquidation or redemption sale (each, a “Sale”), HCM or a CM Affiliate may wish to bid on such collateral on behalf of Other Hildene Accounts. If a CM Affiliate is involved in a Sale process in its capacity as collateral manager or collateral servicer, and is provided information regarding bid levels, this may unfairly advantage the Other Hildene Accounts over third parties seeking to acquire the Collateral. Hildene will endeavor to prevent any bid-level information from being exchanged between CM Personnel involved in the Sale process and Hildene’s personnel involved in bidding on Collateral, if such information would potentially advantage the Other Hildene Accounts in the Sale process; provided, however, that nothing shall be deemed to restrict HCM or its CM Affiliates from exercising any rights of first offer or final refusal contained in any Affiliate-Managed CDO’s governing documents with respect to the Sale of Collateral by such Affiliate-Managed CDO.

**Investing in Different Levels of the Capital Structure.** HCM or its CM Affiliates may from time to time invest a client’s assets in different parts of the capital structure of the same issuer in which Other Hildene Accounts are invested. For example, HCM or its CM Affiliates may invest a client’s assets in debt securities of an issuer in which Other Hildene Accounts hold equity securities. Various potential and actual conflicts of interest may arise from such circumstances. Under such circumstances, the interests of such client and such Other Hildene Account will not always be aligned, which will give rise to conflicts of interest, or the appearance of such conflicts of interest. Actions taken for Other Hildene Accounts might therefore be adverse to those taken for the client, or vice versa. HCM and its CM Affiliates will take actions and make decisions on behalf of both the client and any such Other Hildene Accounts, and will attempt to resolve

any and all conflicts of interest in a fair and equitable manner, however in certain circumstances, any such resolutions may adversely affect the client.

Such potential and actual conflicts of interest arising from clients holding in different parts of the capital structure of a CDO issuer include but are not limited to the following:

- Investments in CDO Securities. HCM or its CM Affiliates may invest in CDO debt securities (“CDO Debt”) and/or CDO equity securities (“CDO Equity”) on behalf of its clients, including CDO Debt and/or CDO Equity issued by Affiliate-Managed CDOs. In addition, HCM or its CM Affiliates may determine it is in the best interests of Other Hildene Accounts to invest in CDO Debt and/or CDO Equity of the same CDOs, including Affiliate-Managed CDOs. The holders of CDO Equity will rank behind all of the creditors, whether secured or unsecured and known or unknown, of the CDO issuer, including, without limitation, the holders of CDO Debt. Consequently, the CDO Equity of the CDO issuers will be subject to the greatest risk of loss, will be the first part of the capital structure of the related CDO issuer to incur losses and will be directly affected by any losses or delays in payment on the related Collateral. CDO Equity, in general, does not bear a stated rate of interest but is entitled to receive residual distributions on each payment date if and to the extent proceeds received during the previous payment period exceed what is needed for the CDO to pay expenses and current interest on its debt, as well as maintain the required level of subordination and certain required ratios of assets-to-liabilities and expected interest proceeds to current interest obligations for each tranche of CDO Debt. Such distributions to the holders of the CDO Equity of excess current proceeds are subordinate to all other obligations of the CDO on each payment date. In addition, upon the maturity or redemption of CDO Debt, any additional Collateral proceeds that remain after full repayment of all CDO liabilities are distributed to the holders of CDO Equity.
- Events of Default. If a client were to invest in CDO Debt of a CDO in which one or more Other Hildene Accounts hold CDO Equity, or if Other Hildene Accounts were to invest in CDO Debt of a CDO in which such client holds CDO Equity, the interests of such client and such Other Hildene Accounts may be adverse if an event of default occurs with respect to such CDO. For example, if any Other Hildene Account were to invest in more senior tranches of CDO securities than the client, such Other Hildene Account would have priority over the client in the capital structure of such CDO, and in a distress or workout scenario such Other Hildene Account could recover on its investment while the client might not. If the client holds CDO Equity, the client would not have any creditors’ rights against the CDO issuer and would not have the right to determine the remedies to be exercised under the CDO indenture. Additionally, holders of the most senior CDO Debt, which may include Other Hildene Accounts, may have consent rights in respect of amendments and CDO manager removal rights in connection with certain events. This situation would present numerous other conflicts or the appearance of conflicts, and could result in the client declining to act in furtherance of its economic interests.
- Mandatory Redemption of Senior Tranches of CDO Debt. In some cases, cash flows from the Collateral that otherwise would have been paid to the holders of any related CDO Debt and the related CDO Equity will be used to redeem the related CDO senior tranches, potentially including those held by Other Hildene Accounts. This could result in a deferral, reduction or elimination of the interest payments, principal repayments or other payments made to the client.
- Optional Redemption of CDO Securities. An optional redemption of CDO Debt or CDO Equity held by Other Hildene Accounts could require the collateral manager or collateral servicer of the related



CDO to liquidate Collateral more rapidly than would otherwise be preferable, which could negatively affect the realized value of the items of Collateral sold, and which in turn could adversely impact the holders of any related CDO Debt, and/or the holders of the related CDO Equity.

- Collateral Sales. From time to time, HCM and/or its CM Affiliates may determine it is in the best interests of the client and/or one or more Other Hildene Accounts to direct and/or to participate in the Sale of Collateral by a CDO, including Affiliate-Managed CDOs. Sales of Collateral may occur as the result of a mandatory or optional redemption of CDO securities or an event of default with respect to the CDO securities, subject in each case to the governing documents of the CDO. From time to time, HCM and/or its CM Affiliates may determine it is in the best interests of the client and/or Other Hildene Accounts to cause a Sale by directing the redemption of CDO securities or the liquidation of a CDO. In addition, a CM Affiliate may be required by the governing documents of an Affiliate-Managed CDO to periodically conduct auctions of Collateral, which may result in an auction sale of such Collateral subject to the requirements of the applicable governing documents.
- Application of Sale Proceeds. The proceeds of a Sale by a CDO ("Sale Proceeds") are distributed to holders of the securities issued by such CDO in accordance with the priority of payments contained in the CDO's governing documents (the "Priority of Payments"). In accordance with such Priority of Payments, Sale Proceeds may be used by the CDO to pay for its expenses, including collateral management fees, and Sale Proceeds received by an Affiliate-Managed CDO may be directed pursuant to the Priority of Payments to pay collateral management or collateral servicing fees to a CM Affiliate of the Manager. Following a successful Sale of CDO Collateral, after the application of the proceeds from the CDO assets to pay senior classes of CDO Debt and the fees, expenses, and other liabilities payable by the CDO issuer pursuant to the Priority of Payments, there may not be any funds remaining to make distributions to the holders of subordinate CDO Debt and CDO Equity. HCM or a CM Affiliate may bid on behalf of its clients on Collateral offered for Sale by CDOs, including Affiliate-Managed CDOs. If HCM or a CM Affiliate successfully bids for its client on Collateral of a CDO, and if Other Hildene Accounts own securities issued by such CDO, the proceeds paid by the client in exchange for such Collateral may ultimately be directed to such Other Hildene Accounts pursuant to the CDO's Priority of Payments. Additionally, if HCM or a CM Affiliate successfully bids for its client on Collateral of an Affiliate-Managed CDO, the proceeds paid by the client in exchange for such Collateral may be used to pay collateral management or collateral servicing fees, including previously accrued but unpaid collateral management fees, to a CM Affiliate in accordance with the Priority of Payments.
- Risk Retention Compliance. Hildene and/or its affiliates, as well as a client, may, directly or indirectly, own a portion of the CDO Debt and/or CDO Equity issued by CDOs in order to comply with legal, regulatory or tax requirements, including risk retention. Any CDO Debt or CDO Equity held for risk retention compliance purposes may be required to be retained by its owner for the term of the CDO and may be subject to other restrictions, including restrictions on hedging and financing. In the event Hildene and/or its affiliates, own, directly or indirectly, any CDO Debt or CDO Equity alongside a client, any or all of the conflicts of interests set forth herein with respect to Other Hildene Accounts and Affiliate-Managed CDOs may apply in such circumstances.

There is no limitation or restriction on CM Affiliates with regard to acting as collateral manager or collateral servicer (or in a similar role) to other CDO issuers or other parties or persons. This and other future activities of HCM and/or its CM Affiliates may give rise to additional conflicts of interest.

Investors in private funds or separate accounts managed by HCM and CDOs managed by HCMC or HSA should refer to the offering memoranda, organizational documents and/or investment management agreements relating to their investments with Hildene for a more complete description of the risks associated with such investment.

Investors should be prepared to bear the risk of loss of some or all of their investment with HCM, HCMC or HSA.

**Material Conflicts of Interest Relating to Other Investment Advisers.** HCM has entered into a strategic relationship with Leucadia Asset Management ("Leucadia"), a division of Jefferies Financial Group Inc., whereby Leucadia: (i) will invest in one or more funds managed by HCM; (ii) serves as a placement agent for the funds; and (iii) has a revenue sharing arrangement with HCM. In connection with its investment in HCM, Leucadia has been granted certain rights, including (a) consent rights, (b) certain reporting, notice and information access rights, (c) periodic consultation meetings with HCM, (d) certain transfer rights, (e) certain "most favored nation" rights and (f) indemnification. Notwithstanding the rights enumerated above, Leucadia does not participate in the day-to-day management of HCM or its clients, or the day-to-day selection, structuring, management, or disposition of any of its clients' investments. Various potential and actual conflicts of interest may arise from HCM's relationship with Leucadia. HCM will endeavor to resolve any conflicts in a manner that HCM deems equitable under the facts and circumstances.

**ITEM 9: DISCIPLINARY INFORMATION**

Hildene has no disciplinary events to disclose.



## **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Neither HCM, HCMC, HSA nor any of their respective management persons has registered as, or has a pending application to register as, a broker-dealer, futures commission merchant, commodity pool operator, commodity trading advisor or an associated person of any of the foregoing entities.

Other than (i) Hildene Advisors, LLC ("HADV"), a Delaware limited liability company and an affiliate of HCM that serves as the general partner of certain feeder funds of HOF and HOF II, (ii) Hildene Private Credit Fund I GP, LLC ("HPCFGP"), a Delaware limited liability company and an affiliate of HCM that serves as the general partner of HPCF and (iii) Hildene Trapeza Manager, Inc. ("HTMI"), a Delaware corporation and an affiliate of HCMC I that serves as the manager of certain Trapeza CDOs for which HCMC I serves as collateral manager, neither HCM, HCMC nor HSA has any financial industry affiliations material to its advisory business. Each of HCMC I, HCMC II, HCMC III and HSA is currently registered with the SEC as a relying adviser of HCM. None of HADV, HPCFGP or HTMI is registered or licensed in any capacity with any regulatory body, nor do they conduct any activities other than serving as the general partner or manager, as the case may be, of certain private funds and CDOs managed by HCM and HCMC, respectively.

HCM, HCMC and HSA do not recommend other investment advisors to clients or receive any compensation from other investment advisors. Certain private funds managed by HCM and certain CDOs managed by HCMC and/or HSA may have common investors.

## **ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics and Personal Trading**

HCM has adopted a written Code of Ethics (the “Code”) in compliance with Securities and Exchange Commission (“SEC”) Rule 204A-1. The Code is updated by HCM from time to time to reflect new legislation or regulations, or to otherwise reflect evolving best practices. All employees are required to read the Code, as part of HCM’s overall Compliance Manual (the “Manual”), and annually acknowledge compliance with the policies and procedures set forth therein. HCM will provide a copy of the Code, as contained in the Manual, to any client or prospective client upon request to the email address on the cover of this brochure. HCM’s relying advisers, including HCMC I, HCMC II, HCMC III and HSA, operate under the same policies and procedures as HCM.

The Code holds individuals to the highest standards of ethical conduct and places upon them a duty to act for the client’s benefit as well as to place the financial interests of HCM’s clients ahead of their own interests at all times. The Code also sets forth trading restrictions and/or prohibitions on certain types of securities for personal accounts, requires mandatory pre-clearance in respect of personal trades conducted in certain types of securities, and mandates reporting of initial holdings information upon employment and periodic transaction reporting thereafter for access persons of Hildene. HCM reviews these reports to ensure compliance by employees with HCM’s policies and procedures regarding personal trading activities.

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

HCM and/or its principals and affiliates on occasion own, buy and/or sell securities which HCM recommends to its clients, subject to the personal trading limitations noted above. Such transactions may also include trading in securities in a manner that differs from or is inconsistent with advice given to clients. HCM recognizes that potential conflicts arise from such transactions and has taken reasonable measures to mitigate such conflicts.

Additionally, HCM occasionally permits certain investors to participate directly along with investments made by a private fund managed by HCM. If, in such event, HCM later determines that it will sell any such investments for the relevant private fund, clients holding the same position will be contacted to give them an opportunity to sell concurrently with such fund.

Certain affiliates of HCM serve as general partner, managing member or investment adviser to pooled investment vehicles which HCM recommends to its clients. In particular, if HCM determines that it is in a client’s best interest, HCM recommends from time-to-time that its clients invest in securities issued by the Trapeza CDOs, Alesco CDOs, Taberna CDOs or HSA CDOs, for which affiliates of HCM serve as the collateral manager, collateral servicer and/or managing member. HCMC receives collateral management fees and may in certain cases receive performance fees from the Trapeza CDOs, Alesco CDOs and Taberna CDOs, as described in Items 5 and 6 above. HSA does not currently charge any fees in respect of the services it provides to any of the HSA CDOs.

From time-to-time, HCM engages in transactions in which it causes one of its clients to purchase securities or other instruments from, or sell securities or other instruments to, other clients managed by HCM and/or its affiliates (“cross trades”). HCM and/or its principals or affiliates also engage in principal transactions

with clients (“principal transactions”) from time-to-time, subject to the client’s prior written consent and after full disclosure to the client of HCM and/or its principals’ or affiliates’ interest in the transaction. HCM and/or its affiliates will not take brokerage commissions or otherwise be compensated for effecting these cross trades or principal transactions. If utilized, HCM intends that cross trades and principal transactions will, to the best of HCM’s ability, reflect the fair value of the security or other instrument being purchased or sold. In determining such fair value, HCM will typically rely on the most recent month-end quotations obtained from market makers, dealers or pricing services for cross transacted securities; provided, however, that if HCM obtains reliable information to indicate that the fair value of a security has changed after the most-recent month-end valuation date but before the execution date of a cross trade, HCM may in its discretion revise the valuation to reflect such new pricing information if HCM determines that the most-recent month-end valuation is no longer reflective of the security’s fair value. Prior to effecting any cross trade or principal transaction, HCM will make a good faith determination that the transaction is in the best interests of the relevant clients.

## **ITEM 12: BROKERAGE PRACTICES**

HCM is responsible for the placement of the portfolio transactions of clients and the negotiation of any commissions or spreads paid on such transactions. Portfolio investments are generally purchased through brokers on securities exchanges or directly from the issuer or from an underwriter or market maker for the investments. Purchases of portfolio investments through brokers will typically involve a commission to the broker. Purchases of portfolio investments from dealers serving as market makers include the spread between the bid and the ask price.

In placing portfolio transactions and negotiating commission rates, HCM will seek to obtain the best execution for its clients where possible; provided, however, that many of HCM's portfolio transactions occur in the OTC marketplace, where HCM may not have the ability to compare or evaluate different broker-dealers in respect of a particular portfolio transaction. In reviewing best execution, HCM may take into account the following factors: (i) the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); (ii) the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution; (iii) the financial strength, integrity and stability of the broker; (iv) the reputation of the broker; (v) the firm's risk in positioning a block of securities; (vi) efficiency of execution and error resolution; (vii) the quality, comprehensiveness and frequency of available research services considered to be of value; and (viii) the competitiveness of commission rates in comparison with other brokers satisfying HCM's other selection criteria.

HCM is authorized to pay higher prices for the purchase of securities from or accept lower prices for the sale of securities to brokerage firms that provide it with such investment and research information or to pay higher commissions to such firms if HCM determines such prices or commissions are reasonable in relation to the overall services provided. Research services furnished by brokers may include written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; statistics and pricing or appraisal services; discussions with research personnel; and invitations to attend conferences or meetings with management or industry consultants. HCM is not required to weigh any of these factors equally. Information so received is in addition to and not in lieu of services required to be performed by HCM, and HCM's fees charged to clients are not reduced as a consequence of the receipt of such supplemental research information. Research services provided by broker/dealers used by HCM clients may be utilized by HCM or its affiliates (including other investment funds managed by such persons) in connection with their other investment activities. Since commission rates in the United States are negotiable, HCM's selection of brokers on the basis of considerations which are not limited to applicable commission rates may at times result in HCM's clients being charged higher transaction costs than they could otherwise obtain.

### **Use of "Soft Dollars"**

The term "soft dollars" refers to the receipt by an investment manager of products and services provided by brokers, without any cash payment by the investment manager, based on the volume of brokerage commission revenues generated from securities transactions executed through those brokers on behalf of the investment manager's clients. Section 28(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), provides a "safe harbor" to investment managers with respect to potential liability for violating their duty to obtain best execution for a client's securities transactions in circumstances in which such managers use soft dollars generated by their advised accounts only for purposes of obtaining

investment research and brokerage services (i) that provide lawful and appropriate assistance to the investment manager in the performance of investment decision-making responsibilities and (ii) where the commissions paid are reasonable in relation to the value of the services provided. HCM does not currently, and does not in the future intend to, engage in any soft dollar transactions. In the event that HCM does engage in any soft dollar transactions, it will not engage in any such transactions other than with respect to products and services which fall within the Section 28(e) safe harbor or where such products or services would otherwise be chargeable to its clients pursuant to the relevant fund offering documentation or separate account advisory contract.

### **Client Referrals**

HCM may direct some of its clients' brokerage business to brokers who refer prospective investors to HCM. Because such referrals, if any, are likely to benefit HCM but will provide an insignificant (if any) benefit to HCM's clients, HCM will have a conflict of interest with its clients when allocating such clients' brokerage business to a broker who has referred investors to HCM. To prevent HCM's clients' brokerage commissions from being used to pay investor referral fees, HCM will not allocate its clients' brokerage business to a referring broker unless HCM determines 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 such clients.

### **Aggregation of Orders**

HCM will at times determine that certain securities are suitable for acquisition by more than one account, possibly including Affiliated Accounts, and may aggregate purchase or sale orders for client accounts. The aggregation or blocking of transactions typically allows an adviser to execute transactions in a more timely, equitable, and efficient manner and seeks to reduce overall commission charges to accounts. HCM's policy is to aggregate transactions where possible and when advantageous to the accounts participating in such transactions. When HCM is placing bids for securities in certain OTC markets in which it and its clients invest, it may routinely aggregate orders into a single bid due to timing constraints and other practical considerations.

From time to time, HCM participates in auctions or bid solicitations in which HCM bids to acquire securities in its capacity as investment adviser on behalf of its clients. In such instances, HCM will generally place a single bid for securities based upon the aggregate number of securities that HCM seeks to acquire on behalf of all of its clients. HCM will allocate any securities acquired in such auction or pursuant to such bid solicitation among accounts for whom such securities are suitable in accordance with its trade allocation policy described below, with such allocation determined upon acquisition of the relevant securities (rather than at the time of the relevant bid).

Any transaction costs arising from an aggregated transaction will be shared on a pro rata basis by participating accounts, based upon the assets allocated to each such account in accordance with HCM's trade allocation policy. HCM may aggregate transactions for clients and Affiliated Accounts, subject to HCM's policy to place client account allocations first.

### **Allocation of Trades**

When HCM aggregates orders, HCM will seek to allocate investments among clients, including Affiliated Accounts, on a fair and equitable basis over time based on the following factors: (i) diversity of the accounts'

investment objectives; (ii) differences in the accounts' investment guidelines and investment restrictions; (iii) differences in the accounts' risk tolerances and return targets; (iv) differences in the accounts' existing portfolio holdings and related balancing and diversification concerns; (v) differences in the accounts' relative sizes; (vi) differences in the accounts' available investment resources (including the timing of capital contributions and withdrawals) and side pocket constraints; (vii) differences in the accounts' liquidity requirements; (viii) differences in the accounts' investment time horizons; (ix) tax considerations; and (x) such other factors as HCM may determine to be relevant at the time of allocation. In addition, HCM may take into account settlement costs in making allocation determinations. For example, if the amount of a security that would be allocated to a particular account would be small in view of the factors described above, and if HCM determines in its discretion that the settlement costs associated with making such allocation would outweigh the benefits of such allocation due to the small amount of securities proposed to be allocated, HCM may elect not to make an allocation to such account.

Allocations may be made among accounts in a manner that is not *pari passu* if such allocation is determined to be reasonable by HCM in accordance with the factors described above. Allocations based on these factors will result in differences in invested positions and securities held among clients, and consequently in performance.

HCM shall endeavor to afford each account fair and equitable treatment in allocating trades among accounts, provided that allocations shall first be made to HCM's clients for whom allocation would be appropriate in light of the factors described above, in such amounts as may be appropriate in accordance with such factors, prior to making any allocation to any Affiliated Accounts.

To the extent relevant, HCMC and HSA adhere to the foregoing brokerage practices in connection with their respective management of the Trapeza CDOs, Alesco CDOs, Taberna CDOs and HSA CDOs.

### **ITEM 13: REVIEW OF ACCOUNTS**

Transaction activity for each HCM account is reviewed on a daily basis, typically by a senior investment team member, as well as Compliance. HCM investment personnel typically meet weekly to discuss new investment opportunities and current market conditions. Additionally, HCM investment management personnel review HCM's portfolios on at least a monthly basis for compliance with each portfolio's guidelines and investment strategy. Additional portfolio reviews may be conducted as a result of client contributions or distributions, revised client objectives, or changes in law.

HCM, or an administrator engaged by HCM, typically provides clients with reports concerning account holdings, transaction summaries and performance data, on either a monthly or quarterly basis. More frequent reporting may be provided as requested by a client or investor. Investors in HCM managed private funds and separately managed accounts receive monthly account statements from the accounts administrator or custodian. Audited financial statements are typically provided to investors in private funds managed by HCM on an annual basis.

Investments held by CDOs or CDO warehouses are periodically reviewed by investment professionals of HCMC and/or HSA, as applicable. This review primarily focuses on an analysis of each investment's financial performance, a review of each investment's capital structure and a review of each investment's industry prospects. Individual CDO deal metrics are also periodically reviewed. Investors in CDOs receive monthly or quarterly reports from the account's trustee, which are reviewed for accuracy by CM Personnel.

#### **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

HCM has entered into arrangements with placement agents whereby HCM will compensate third parties who introduce certain private fund investors and clients. Such placement agent arrangements will seek to conform to Rule 206(4)-3 of the Advisers Act, to the extent applicable. Compensation typically takes the form of a percentage of the management fees and performance fees received by HCM from such investors. The fees paid to such placement agents are generally paid by HCM and are not borne by investors, and such fee arrangements are disclosed to applicable investors.

HCM does not receive economic benefits from any person not a client of HCM in exchange for providing advisory services to HCM clients.

Neither HCMC nor HSA has any written agreements in place with any third party marketers. Neither HCMC nor HSA receives any economic benefits from any person not a client of HCMC or HSA, as the case may be, in exchange for providing advisory services.



## **ITEM 15: CUSTODY**

HCM does not have custody of its clients' assets; however, HADV and HPCFGP, affiliates of HCM, serve as the general partner of certain private funds, and HCM has a principal who serves on the board of directors of certain private funds for which HADV and/or HCM are deemed to have custody under certain rules promulgated by the SEC. With respect to any account in which HCM or an affiliate is deemed to have custody, the assets of such HCM clients are held by a qualified custodian, which provides monthly account statements to each client and provides copies of such statements to HCM. Investors in HCM's private funds additionally receive monthly account statements from the applicable fund's administrator. Investors are urged to carefully review such statements.

Additionally, the private funds undergo an audit on an annual basis by an independent public accountant that is both registered with and subject to regular inspection by the Public Company Accounting Oversight Board. In respect of such private funds, HCM provides audited financial statements of each fund to the investors in the fund within 120 days of the end of the fund's fiscal year. Investors are urged to carefully review such audited financial statements.

Neither HCMC nor HSA currently maintains custody of any client's funds or securities.

## **ITEM 16: INVESTMENT DISCRETION**

HCM generally has discretionary authority over its clients' assets pursuant to the advisory contracts it enters into with such clients. This means that HCM places trades in its clients' accounts without contacting the client prior to any trade to obtain the client's permission. HCM's discretion may be limited pursuant to the terms and conditions of the applicable advisory relationship, provided that the restrictions are essentially consistent with HCM's investment process.

Similarly, HSA has discretionary authority over each HSA CDO's assets during the pre-securitization warehouse period pursuant to investment management agreements entered into between HSA and the applicable HSA CDO. HSA's discretion may be limited pursuant to the terms and conditions of the applicable advisory relationship, provided that the restrictions are essentially consistent with HSA's investment process. HCOMF has a two year reinvestment period, ending in November 2022. During the reinvestment period, HSA has discretionary authority over the assets purchased in HCOMF pursuant to a management agreement entered into between HSA and HCOMF.

The applicable indentures for CDOs managed by HCMC and HSA, including the Trapeza CDOs, the Alesco CDOs, the Taberna CDOs and the new issue HSA CDOs, place significant restrictions on HCMC and HSA's ability to buy and sell collateral debt securities on behalf of the CDOs once warehouse operations have ceased and a securitization transaction has occurred (and, in the case of HCOMF, the reinvestment period has ended). These indentures generally restrict HCMC and HSA during such periods from selling collateral debt securities on behalf of a CDO unless such securities have experienced specified credit deterioration, ratings downgrades, or events of default.

## **ITEM 17: VOTING CLIENT INVESTMENTS**

HCM may accept authority to vote client securities for certain clients, including the private funds it manages. In such circumstances, proxy and other corporate action material is promptly reviewed by HCM to evaluate the issues presented. In voting proxies, HCM is guided by general fiduciary principles. HCM's goal is to act prudently, solely in the best interest of the client accounts it manages. HCM attempts to consider all aspects of its vote that could affect the value of the investment; and where HCM votes proxies, it will do so in the manner that it believes will be consistent with efforts to maximize the value of security holdings.

HCM may determine to abstain from voting a proxy or a specific proxy item when it concludes that the potential benefit of voting is outweighed by the cost or when it is not in the client's best interest to vote. In many instances, the disparate interests of HCM's clients may make it difficult for HCM to determine a manner in which to vote and, in those circumstances, HCM may abstain from voting. However, if HCM does vote, HCM shall vote in a manner it believes to be consistent with the interests of its clients and shall not subordinate client interests to its own, or subordinate one client's interest to another client's.

HCMC and HSA's CDO investments are primarily comprised of various tranches of debt securities. Generally, the holders of these investments are not entitled to vote on corporate matters, however, to the extent relevant, HCMC and HSA will adhere to the foregoing voting practices in connection with its management of CDOs.

In furtherance of Hildene's goal to vote proxies in the best interests of clients, Hildene follows procedures designed to identify and address material conflicts that may arise between Hildene's interests and those of its clients before voting proxies on behalf of such clients. In the event a material conflict of interest is identified, certain methods may be used to resolve the conflict, including (i) disclosing the conflict to the client and obtaining its consent before voting; (ii) suggesting to the client that it engage another party to vote the proxy on its behalf; or (iii) such other method as Hildene deems appropriate under the circumstances, given the nature of the conflict.

Clients may obtain a copy of Hildene's proxy voting policies and procedures upon request to the email address on the cover of this brochure. Hildene maintains records of each proxy form or corporate action as voted for its clients.

#### **ITEM 18: FINANCIAL INFORMATION**

None of HCM, HCMC or HSA has additional financial circumstances to report. A balance sheet is not required to be provided because none of these entities requires or solicits prepayment of more than \$1,200 in fees per client more than six months in advance of services rendered.