

## **FORM ADV PART 2A: FIRM BROCHURE**

### **ITEM 1. COVER PAGE**

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January 2024

#### **Important Disclosure:**

This brochure dated January 2024 (this "Brochure") provides information about the qualifications and business practices of ITE Management L.P. and its affiliates ("ITE", the "Adviser" or the "Firm"). If you have any questions about the contents of this Brochure, please contact us at (212) 220-5802 or by email at [ADV@itemgmt.com](mailto:ADV@itemgmt.com). ITE Management L.P. is registered as an investment adviser with the United States Securities and Exchange Commission ("SEC") under the Investment Advisers Act of 1940, as amended (the "Adviser's Act"). Registration as an investment adviser does not imply that ITE Management L.P. or its employees possess a certain level of skill or training. The information in this Brochure has not been approved or verified by the SEC or by any state securities authority. This Brochure contains certain material information in the manner and format promulgated by the SEC. Additional information, which must be read and considered with the information in this Brochure, is found in other documents, including, as applicable, offering memoranda and/or investment management agreements, among others.

Additional information about ITE Management L.P. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **ITEM 2. MATERIAL CHANGES**

This Brochure, dated January 2024, reflects the increase in the Firm's regulatory AUM from \$3.4B to \$3.5B, the addition of two pooled investment vehicles managed by the Adviser and certain clarifications and/or updates to the descriptions of its and its affiliates business practices and compliance policies and procedures.

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#### ITEM 4. ADVISORY BUSINESS

- A. ITE Management L.P. is a Delaware limited liability company formed on May 29, 2007 (f/k/a JNF Management LLC and D Aaron Asset Management LLC). The Firm is an investment adviser located in New York, NY. The Firm's "Principals" are Jason Koenig, David Smilow and James Unger. Mr. Koenig and Mr. Smilow are considered ITE's principal owners for purposes of this disclosure document.
- B. The Firm serves as an investment adviser to pooled investment vehicles (each, a "Fund," and collectively, the "Funds"), including ITE Institutional Rail Fund L.L.C., ITE Rail Fund L.P. and ITE Rail Feeder Fund L.P. (collectively, the "Rail Funds"), ITE Air Master Fund II L.P. and ITE Air Fund L.P. (collectively, the "Air Funds"), ITE Global Intermodal Fund L.P. and ITE Global Intermodal Feeder Fund L.P. (collectively, the "Intermodal Funds") ITE Diversified Transportation Asset Fund L.P. and ITE Offshore Diversified Transportation Asset Fund L.P. (collectively, the "Diversified Funds"), as well as any special purpose vehicles, separately managed accounts or co-investment vehicles established for the purposes of pursuing alternative investments and/or side agreements with an individual investor and/or affiliated and third-party co-investors (each, an "Other Advisory Account" and, collectively with the Funds, the "Clients"). The Clients are exempt from registration under the Investment Company Act of 1940, as amended (the "Investment Company Act"), pursuant to Section 3(c)(7) of the Investment Company Act.

The Firm provides discretionary investment management services to the relevant Client pursuant to such Client's investment management agreements with ITE. The Firm manages the assets of the relevant Client in accordance with the applicable limited partnership agreement, offering memoranda and/or other such governing agreements (the "Offering Documents").

The Firm is affiliated with certain other entities that are or may become general partners (each, a "General Partner," and collectively, the "General Partners") to each of the Clients. Each of ITE's current Clients are controlled by those General Partners that ITE is affiliated with as of the date of this Brochure.

The advisory services of ITE and of the General Partners are described in more detail in this Brochure and in the Offering Documents.

- C. Where the Firm serves as the investment adviser to a Fund, investment objectives, guidelines, and any investment restrictions are described in the relevant Offering Documents of a Fund and generally are not tailored to the individual or particular needs of specific investors in the Funds. As a condition of subscription, Fund investors will accept the terms of advisory services as set forth in the related Fund's Offering Documents. The Firm has broad investment authority with respect to the Funds and, as such, investors should consider whether the investment objectives of the Funds will be in line with their individual objectives and risk tolerance prior to investment. In respect of Other Advisory Accounts, the Firm may be able to tailor its advisory services and investments based on specific objectives and/or investment strategies discussed with an individual investor and/or affiliated and third-party co-investors.

- D. The Firm does not participate in wrap fee programs.
- E. As of December 31, 2023, ITE manages \$3,534,911,020 in regulatory assets on a discretionary basis.

## ITEM 5. FEES AND COMPENSATION

- A. The Firm's fees and compensation may vary among its Clients. The specific terms of such arrangements are established by the Firm and set forth in each Client's Offering Documents. The Firm generally charges a management fee for its management and other services (the "Management Fee"). The General Partner may, in its sole discretion, waive, reduce or calculate differently (but not increase in the aggregate) such fees for any investor without limitation, an investor that is a member, partner, affiliate or employee of a General Partner or the Firm, a member of the immediate family of such a person or a trust or other entity for the benefit of such a person or a strategic investor or other investor with a similar relationship with the Firm and/or its personnel.

The Firm accepts subscriptions by investors for interests in the Funds and Other Advisory Accounts that meet the definition of a "qualified purchaser", as defined in section 2(a)(51)(A) of the Investment Company Act. Therefore, ITE is not required to disclose a fee schedule.

The Firm receives performance-based fees, as more fully described in Item 6.

- B. For those Clients that are charged a Management Fee, the Firm deducts Management Fees from such Client's accounts quarterly in advance. Management Fees are amortized monthly by the Firm over the fiscal quarter for which such Management Fee is paid.
- C. In addition to the Management Fees described above, a Client may bear some or all of the following fees, costs and expenses as disclosed in each Client's Offering Documents.

Such operating expenses include, without limitation: investment expenses, whether or not such investments are consummated (costs and expenses associated with the investigation of investment opportunities (whether or not consummated), negotiating, financing, sourcing, acquiring, holding, hedging, settling and disposing of investments or proposed investments, including, without limitation, expenses relating to the maintenance, operation and/or monitoring of the investments charged by third party service providers); Advisory Committee expenses (if any), investment-related travel expenses (which are travel expenses incurred by the Investment Manager or a General Partner related to the purchase or sale, on-going due diligence, maintenance and/or monitoring of a Client's investments, whether or not such investments are consummated); third-party professional fees (including, without limitation, expenses of consultants, investment bankers, attorneys, accountants and other experts) relating to investments; brokerage commissions, information-related expenses, clearing and settlement charges, custodial fees, interest expenses, appraisal fees and expenses and similar expenses; fees and expenses relating to software tools, programs or other technology utilized in managing a Client (including, without limitation, third-party software licensing, implementation, data management and recovery services and custom development costs); research and market data; out-of-pocket fees and expenses incurred by a Client or the Firm in connection with annual investor meetings, administrative expenses (including, without limitation, fees and expenses of a Client's administrator); legal and litigation expenses; external accounting and valuation expenses (including, without limitation, the cost of accounting software packages); audit and tax preparation expenses; costs related to liability insurance, umbrella insurance,

property insurance and excess or contingent insurance with respect to a Client and/or any of its assets, and errors and omissions insurance for a General Partner and the Investment Manager; costs of printing and mailing reports and notices; taxes; corporate licensing; regulatory expenses (including expenses related to preparing and making regulatory and compliance filings associated with a Client and such Client's investment activities, such as filing fees and costs of software and systems relating to such filings and excluding, for the avoidance of doubt, the preparation and filing of the Investment Manager's Form ADV or any amendments thereto), fees and expenses incurred in connection with the preparation of filing of Form PF, Annex IV under the Alternative Investment Fund Managers Directive and/or any other similar regulatory filings; fees and expenses relating to FATCA or any similar reporting and/or withholding regimes in any jurisdiction; fees and expenses in connection with due diligence, enhanced reporting and/or compliance in respect of a Client's environmental, social and governance considerations; organizational expenses of a Client (including its pro rata share of the organizational expenses of a master fund for those Clients in a master-feeder structure); indemnification expenses; expenses incurred in connection with the offering and sale of a Client's respective limited partnership interests (including the legal costs associated with side letter agreements) and other similar expenses related to a Client (other than any fees payable to any placement agent); and extraordinary expenses (including fees and expenses incurred in connection with liquidation of a Client vehicle).

A Client will incur brokerage costs if applicable; however, due to the nature of the Firm's business, broker-dealers are not generally used. See Item 12 – Brokerage Practices.

To the extent that expenses to be borne by a Client are paid by a General Partner or the Investment Manager, a Client will reimburse such party for such expenses, as applicable.

The Firm serves as an administrator to Railcar Holdings PAS II, L.L.C., Rail Connection II CA A LP and Rail Connection II A LLC ("Rail Fund SPVs"), which are bankruptcy-remote special purpose vehicles of ITE Rail Fund L.P. and require certain administrative services in respect of their rated debt. As part of these administrative services, the Firm provides or coordinates legal, accounting, tax and other professional services and receives compensation for its services to such Rail SPVs. Under each administration agreement, such Rail Fund SPVs agree to pay the Firm, as administrator, a monthly administration fee in an amount equal to \$1,000.00.

- D. For those Clients that are charged a Management Fee, the Management Fees are paid in advance on a quarterly basis. In the unlikely event that ITE does not provide services for a full period, or if accounts are terminated according to the terms set out in each Client's Offering Documents before the end of the relevant fiscal quarter, a pro-rata portion of the Management Fee will be returned, based on the actual number of months remaining in the relevant fiscal quarter.

With respect to investors (i) admitted to the ITE Rail Fund L.P. after January 1, 2018 and/or (ii) in Class B of ITE Rail Feeder Fund L.P., Management Fees are charged (A) on each date such investor makes a capital contribution to the ITE Rail Fund L.P., 1% of such capital contribution and (B) 0.3750% (1.5% per annum) of the beginning balance of each capital account of an investor (before taking into account the estimated accrued incentive

allocation, if any, that has accrued as of the applicable calculation date or have been made during the applicable calculation period) for each fiscal quarter.

- E. Neither ITE nor any of its supervised persons will accept compensation for the sale of securities or other investment products.

Certain employees of ITE may be engaged by portfolio companies as consultants and may be compensated by such company. To the extent this occurs with respect the Rail Funds, Intermodal Funds or Diversified Funds, any such engagement will be conducted on arms-length terms and/or approved by such Fund's Advisory Committee or independent directors, as applicable.



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

ITE and its affiliates receive performance-based fees in the form of incentive allocations, carried interest or other performance-based fees, based on profits, from certain Clients (the "Performance-Based Fees"). The receipt of Performance-Based Fees from Clients may create an incentive for the Firm to make more speculative, riskier, or higher-yielding investments on behalf of Clients than would be the case in the absence of such compensation. However, ITE is committed to acting at all times in the best interests of its Clients. To this end, ITE has implemented internal controls to address the potential conflicts associated with Performance-Based Fees, as more fully described in each Client's Offering Documents. Please also see the Offering Documents of each Client for more complete information on the Performance-Based Fees of each Client and Item 10 below regarding additional information relating to how conflicts of interest are generally addressed by the Firm.

As of the date of this Brochure, the Firm has not established a co-investment vehicle. Should the Firm establish a co-investment vehicle, such vehicle may be subject to fees and allocations which may differ among co-investors and also may differ from the fees and allocations borne by any Client.

## ITEM 7. TYPES OF CLIENTS

As further described in Item 4 of this Brochure, ITE provides investment advisory services to pooled investment vehicles, including Other Advisory Accounts, which generally operate as exempt investment companies under the Investment Company Act. Generally, investors are required to meet certain suitability and net worth qualifications, such as being (a) an "accredited investor" within the meaning of Rule 501 of Regulation D under the Securities Act of 1933, as amended (the "Securities Act"), (b) a "qualified purchaser", as defined in the Investment Company Act, (c) a "knowledgeable employee" within the meaning of Rule 3c-5 of the Investment Company Act or (d) a non-U.S. person, depending on the applicable eligibility requirements of the respective Client.

Prospective investors should refer to the Offering Documents of the respective Client for information on minimum investment requirements. Typically, ITE may require a minimum investment, although ITE maintains discretion to individually waive, increase or reduce the minimum investment required.

The Firm may, from time to time, offer one or more investors and/or other third-party investors the opportunity to co-invest with a Fund in particular investments. The Firm is not obligated to arrange co-investment opportunities, and no investor will be obligated to participate in such an opportunity. As of the date of this Brochure, ITE has not established any active co-investment vehicles, nor has it arranged any co-investment opportunities. Certain Clients invest in assets through a joint venture vehicle with a third-party rail car operator and may enter into other such joint ventures in the future.

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

- A. The descriptions set forth in this Brochure of specific advisory services that the Firm offers and investment strategies pursued, and investments made by the Firm on behalf of its Clients, should not be understood to limit in any way its investment activities. The Firm may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that the Firm considers appropriate, subject to each Client's investment objectives and guidelines. The investment strategies the Firm pursues are speculative and entail substantial risks. Investors in each Client should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any Client will be achieved.

**General Risk of Loss.** An investment in a Client will involve significant risk. No guarantee or representation is made that a Client's investment program, including, without limitation, a Client's investment objectives, 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 or that substantial or complete losses will not be incurred. Past investment results of the investments made by the investment professionals of the Firm are not necessarily indicative of their future performance.

- B. *Listed below are some of the risks associated with investing in a Client. The following explanation of certain risks is not exhaustive, but rather highlights some of the more significant risks involved in a Client's investment strategies. Please note, not all risks are applicable to each Client; there are important differences in how these risks may affect each Client. For a complete explanation of the relevant investment strategies and their associated risks specific to each Client, investors should review the relevant Client Offering Documents, which may contain additional explanations of strategies, risks and other related details not discussed below.*

### **General Risks Applicable to Clients**

**Dependence Upon the General Partners and the Investment Manager.** Investors should be aware that they will have no right to participate in the management of any Client, any General Partner or the Investment Manager, and they will have no opportunity to select or evaluate any of a Client's respective investments or strategies. Accordingly, investors should not invest in a Client unless they are willing to entrust all aspects of the management of a Client and their respective investments to the discretion of the respective General Partner and the Investment Manager. The success of a Client is dependent upon the ability of the Investment Manager to manage such Client and effectively implement its investment program. A Client's governing documents do not permit the investors to participate in the management and affairs of a Client. If the Client or any of the Other Advisory Accounts managed by the Investment Manager were to incur substantial losses or, if applicable, were subject to an unusually high level of redemptions or withdrawals, the revenues of the Investment Manager may decline substantially. Such losses and/or withdrawals may impair the Investment Manager's ability to provide the same level of service to a Client as it has in the past and continue operations. The loss of the services of the Investment Manager could have a material adverse effect on a Client and the investors' investments therein.

**Dependence on Service Providers.** The Firm's Clients are dependent upon the relevant counterparties and the third-party service providers that are not controlled by the Investment Manager that provide services to each Client (the "Service Providers"). Examples of Service Providers include the fund administrator, prime brokers, custodians, legal counsel and the auditors. Errors are inherent in the business and operations of any business, and although the Firm has adopted 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 the Firm, its Clients and its Clients' investments.

Each Client is reliant on the performance of the Service Providers. Each investor's relationship in respect of its investment is with the relevant Client only. Accordingly, absent a direct contractual relationship between the investor and the relevant Service Provider, no investor will have any contractual claim against any Service Provider for any reason related to its services to a Client. Instead, the proper plaintiff in an action in respect of which a wrongdoing is alleged to have been committed against a Client by the relevant Service Provider is, *prima facie*, such Client.

**Retention and Motivation of Employees.** The success of any Client is dependent upon the talents and efforts of highly skilled individuals employed by the Investment Manager and the Investment Manager's ability to identify and willingness to provide acceptable compensation to attract, retain and motivate talented investment professionals and other employees. There can be no assurance that the Investment Manager's investment professionals will continue to be associated with the Investment Manager throughout the life of a Client, and the failure to attract or retain such investment professionals could have a material adverse effect on a Client and investors' investments. Competition in the financial services industry for qualified employees is intense and there is no guarantee that, if lost, the talents of the Investment Manager's investment professionals could be replaced.

**Investment and Due Diligence Process.** Before making investments, the Investment Manager 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 Investment Manager 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 Investment Manager will rely on the resources reasonably available to it, which in some circumstances, whether or not known to the Investment Manager 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.

**ESG Policy.** The Investment Manager maintains a policy that, among other things, states that environmental, social and governance ("ESG") factors may be taken into consideration as part of the investment process (the "ESG Policy"). The ESG Policy allows the Investment Manager's investment professionals to take steps, as they deem appropriate under the circumstances, to assess a variety of ESG factors, which may vary depending on the nature of the investment opportunity (including, but not limited to: energy efficiency;

climate change; sustainability; worker health and safety; unethical labor practices; corporate transparency; compliance; and the mitigation of conflicts of interest) in the process of evaluating potential investment opportunities for a Client. Investors should be aware that the ESG Policy may preclude or limit certain profitable investments (or may result in earlier than planned exits, where a longer holding period would have resulted in higher profits or lower losses). Notwithstanding the foregoing and for the avoidance of doubt, it is not contemplated that the Investment Manager will subordinate investment return or increase investment risks for any Client as a result of (or in connection with) the ESG Policy. Each investor should carefully review the Investment Manager's ESG Policy, which is available upon request, in its entirety before deciding to invest. While ITE believes ESG factors can enhance long term value, ITE does not pursue an ESG based investment strategy nor does ITE consider itself a manager focused on ESG issues or an impact fund sponsor and does not market itself or its funds based on environmental or social standards.

**Liability of a Client and Separate Classes.** Each Client (including any master fund, if applicable) is a single legal entity and there is no limited recourse protection for any class of interests of a Client (if applicable). Generally, creditors of a Client may enforce claims against all assets of a Client, but not against assets of any master fund (if applicable), and creditors of a master fund may enforce claims against all assets of such master fund, but not against assets of a Client. However, all assets of a Client, including interests in the master fund (if applicable), may be available to meet all liabilities of a Client, and all assets of the master fund may be available to meet all liabilities of the master fund, even if, in either case, the liability relates to a particular class of interests, capital account, or series of a Client or the master fund (if applicable), as the case may be. Thus, for example, in the event that the assets attributable to capital accounts participating in an investment were completely depleted by losses or liabilities, a creditor could enforce a claim against the assets of a Client which would be borne by the other capital accounts that did not participate in the investment or transaction. In addition, in order to facilitate investments or financing, a Client may guarantee certain obligations of such Client or one or more of its affiliates. In such circumstances all of the assets of the guarantor generally will be available to satisfy the guaranty obligation. Such arrangements may expose a Client to an increased risk of loss.

The Investment Manager generally intends to make investments through multiple subsidiaries. Creditors (except with respect to tax creditors, such as the Internal Revenue Service) of one subsidiary generally may not enforce a claim against the assets of another subsidiary, unless a Client guarantees the obligations of such subsidiary to such creditor; *provided, however*, that cross-class liability may still exist in such arrangements.

**Legal and Regulatory Environment for Private Investment Funds and their Investment Managers.** Increased regulation and regulatory oversight of private investment funds and their investment managers may impose administrative burdens on the Investment Manager, including, without limitation, responding to examinations and other regulatory inquiries and implementing policies and procedures. Such administrative burdens may divert the Investment Manager'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.

Additionally, the legal and regulatory environment worldwide for private investment funds (such as the Clients) and their managers is evolving. Changes in the regulation of private investment funds, their managers, and their trading and investing activities may have a material adverse effect on the ability of any Client to pursue their investment program and the value of investments held by such Client. There has been an increase in scrutiny of the private investment fund industry by governmental agencies and self-regulatory organizations. New laws and regulations or actions taken by regulators that restrict the ability of each Client to pursue its investment program or employ brokers and other counterparties could have a material adverse effect on such Client and the investors' investments therein. In addition, the Firm may, in its sole discretion, cause a Client to be subject to certain laws and regulations if it believes that an investment or business activity is in such Client's interest, even if such laws and regulations may have a detrimental effect on one or more investor.

**Effect of Substantial Losses or Withdrawals.** If, due to extraordinary market conditions or other reasons, a Client were to incur substantial losses or were subject to an unusually high level of withdrawals (if applicable for such Client), the revenues of the Firm may decline substantially. Such losses and/or withdrawals may hamper the Firm's ability to (i) retain employees, (ii) provide the same level of service to its Clients as it has in the past, and (iii) continue operations.

**In-Kind Distributions.** Under certain circumstances a withdrawing investor may receive distributions in kind in lieu of, or in combination with, cash. Such distributions may include loans, interests in one or more liquidating vehicle holding investments owned by a Client, or participations therein. To the extent a withdrawing investor is distributed interests in special purpose vehicles, such withdrawing investor will continue to be at risk with respect to a Client's business. The value of the investments distributed in kind may increase or decrease before they are sold either by the withdrawing investor, if received directly, or by ITE or its affiliates, if held through a special purpose vehicle. In either case, the withdrawing investor will incur transaction costs in connection with the sale of any such investments and, in the case of interests in a liquidating vehicle, will bear a proportionate share of the operating and other expenses borne by such vehicle. Instruments distributed in kind will not be readily marketable. The risk of loss and delay in liquidating these vehicles will be borne by the investor, with the result that such investor may ultimately receive less cash than it would have received on the date of withdrawal if it had been paid in cash. Furthermore, to the extent that a withdrawing investor receives interests in special purpose vehicles, such withdrawing investor will generally have no voting rights or any control over when and at what price the investments in which such vehicles have an interest are sold.

**Increasing Assets Under Management.** The rates of return achieved by trading advisers or managers often diminish as the assets under their management increases. The Investment Manager has not agreed to limit the amount of additional equity that it will manage.

**Valuation of Assets and Liabilities.** Each Client's assets and liabilities are valued in accordance with the Firm's valuation policy. The valuation of any asset or liability involves inherent uncertainty. The value of an investment determined in accordance with the valuation policy may differ materially from the value that could have been realized in an actual sale or transfer for a variety of reasons, including the timing of the transaction and liquidity in the market. Uncertainties as to the valuation of portfolio positions could have an impact on the net asset value of a Client if the judgments of a General Partner regarding the appropriate valuation should prove to be incorrect.

**Coronavirus Risk.** In December 2019, the virus SARS-CoV-2, which causes the coronavirus disease known as COVID- 19, was first identified in the human population. The disease 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 have 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 the Firm and the performance of its Clients is difficult to predict.

General market disruptions may affect the ability of certain investors to access capital and thus, fund capital commitments to a Client. Disruptions specific to the transportation sector may affect the profitability of certain air, rail and/or intermodal-related investments held by a Client.

Any potential impact on the operations of the Firm and performance of its Clients 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 the performance of the Firm and its Clients.

**Cybersecurity Risk.** As part of its business, the Firm processes, stores and transmits large amounts of electronic information, including information relating to the transactions of its Clients and personally identifiable information of the investors. Similarly, Service Providers, especially the administrator, may process, store and transmit such information. The Firm has procedures and systems in place that it believes are reasonably designed to protect such information and prevent data loss and security breaches. However, such measures cannot provide absolute security. 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 Firm may be susceptible to compromise, leading to a breach of the Firm's network. The Firm's systems or facilities may be susceptible to employee error or malfeasance, government surveillance, or other security threats. Online services provided by the Firm to the investors may also be susceptible to compromise. Breach of the Firm's information systems may cause information relating to the transactions of its Clients and personally identifiable information of the investors to be lost or improperly accessed, used

or disclosed.

The Service Providers are subject to the same electronic information security threats as the Firm. If a Service Provider fails to adopt or adhere to adequate data security policies, or in the event of a breach of its networks, information relating to the transactions of Clients and personally identifiable information of the investors may be lost or improperly accessed, used or disclosed.

The loss or improper access, use or disclosure of the Firm's or the Clients' proprietary information may cause the Firm or its Clients to suffer, among other things, financial loss, the disruption of its business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing events could have a material adverse effect on the Firm, its Clients or its Clients' investments.

**Systemic Risk.** Systemic risk is the risk of broad financial system stress or collapse triggered by the default of one or more financial institutions, which results in a series of defaults by other interdependent financial institutions. Financial intermediaries, such as clearing houses, banks, securities firms and exchanges with which the Clients interact are all subject to systemic risk. A systemic failure could have material adverse consequences on the Clients and on the markets for the investments in which the Clients seek to invest.

**Climate Change-Related Risks.** The environmental effects of climate change, including rising temperatures, extreme weather, fires, flooding, erratic weather fluctuations, agricultural failures and displacement and destabilization of human populations, could have materially adverse effects on a Client's investments. The Firm believes that such risks may increase over time, although the time period over which these consequences might unfold is difficult to predict.

In addition to the physical, economic and geo-political risks associated with climate change, there are transition risks. The willingness of certain governments, industries and businesses, especially those that profit from, or have a reliance on, fossil fuels, to adapt to climate change or transition to sustainable practices may also adversely affect a Client's investments.

Regulatory changes and divestment movements tied to concerns about climate change could adversely affect the value of certain industries whose activities or products are seen as accelerating climate change, or ill-positioned in light of the economic and social demands imposed by climate change. In recent years, certain investors have incorporated the business risks of climate change and the adequacy of companies' responses to climate change as part of their investment theses. These shifts in investing priorities may result in adverse effects on the value of investments if investors determine that the company has not made sufficient progress on climate change and environmental sustainability matters whether or not climate change proves to be as severe as predicted or preventable.

The values of investments whose performance is linked to assets and revenue streams that are exposed to climate change risk may readily be affected by both long-term, systemic effects of climate change, as well as severe environmental events whose occurrence is inherently unpredictable.



**Sanctions.** The Firm's and/or any Client's operations are or may become subject to economic sanctions laws and regulations of various jurisdictions. At any given time, whether under applicable law, by contractual commitment or as a voluntary risk management measure, the Firm and/or any Client may be required, or elect, to comply with various sanctions programs, including the Specially Designated Nationals and Blocked Persons List and Sectoral Sanctions programs administered by OFAC, the sanctions regimes administered by subsidiary organs of the United Nations Security Council, the Sanctions Orders of the Cayman Islands (including as extended to the Cayman Islands by Order of the government of the United Kingdom from time to time), and the Restrictive Measures adopted by the European Union. Some sanctions that may apply to the Firm and/or any Client prohibit or restrict dealings with particular identified persons. Other potentially applicable sanctions programs broadly prohibit or restrict dealings in certain countries or territories or with individuals and entities located in such countries or territories. In addition to such current sanctions, additional sanctions may be imposed in the future. Such sanctions may be imposed with little or no advance warning or "safe harbor" for compliance and may be ambiguous, including as to the scope of financial activities that regulators may ultimately deem to be covered by the sanctions.

Depending on the scope and duration of a particular sanctions program, compliance by the Firm and/or any Client may result in a material adverse effect on the Firm, its Clients and its Clients' investments. The Firm and/or any Client may be subject to heightened or targeted regulatory scrutiny and information requests as a result of such sanctions. In addition, if the Firm and/or any Client were to violate or be deemed in violation of any such sanction, each could face significant legal and monetary penalties. Sanctions may negatively impact a Client's ability to effectively implement its investment strategy and have a material adverse impact on a Client's investments in various ways, including by preventing or inhibiting a Client from making certain investments, forcing a Client to divest from investments previously made, and leading to substantial reductions in the revenues, profits and value of a Client's investments. Finally, sanctions may have broader economic implications, such as influencing the price of certain commodities, which may have adverse effects on inflation and the value of the U.S. dollar, which may adversely affect investment objectives and strategies of a Client.

In particular, the value of certain Client investments that have connections with China could be adversely affected by sanctions. Relations between China and the United States have recently become strained, resulting, at times, in a degradation in trade relations and the imposition of sanctions. The U.S. Government, through legislation enacted by Congress, Executive Orders issued by the President, and regulations and other actions by various U.S. federal government agencies, including OFAC, the U.S. Department of Commerce, the U.S. Department of State and the U.S. Department of Defense, has imposed or authorized the imposition of sanctions against certain Chinese government officials, government entities, and state-owned and non-state-owned companies. Such sanctions may adversely affect the investment objectives and strategies of a Client.

**Russia-Ukrainian Conflict.** The Russian invasion of Ukraine that commenced in February 2022, has resulted in complex, evolving and systemic economic effects that may influence financial benchmarks key to asset pricing, interest rates and lending availability, as well as financial and physical market liquidity, and the price and availability of essential

commodities, in an unpredictable fashion for an uncertain duration. Acute effects to particular commodity and foreign securities markets are possible. Russia and Ukraine are major participants in certain commodities sectors, such as for agricultural (e.g., wheat) and energy (e.g., oil and natural gas) products. Furthermore, this conflict has also resulted in swift multilateral sanctions targeting Russia's financial sector and access to capital markets with designations of dozens of individuals and entities, including the Russian Central Bank, several large publicly-traded Russian banks and companies, Russia's sovereign wealth funds, and Russian oligarchs and other members of the Russian elite, including Russian Federation President Vladimir Putin. The sanctions imposed are complex and the prohibitions apply to various types of debt and equity transactions involving sanctioned persons, including bonds, loans, loan guarantees, extensions of credit, letters of credit, stocks, share issuances, and depository receipts, among others. For example, U.S. persons have been, and in the future may continue to be, prohibited from transacting, financing or otherwise dealing in certain new debt and equity of certain financial institutions and companies critical to the Russian economy. In addition, certain imports, exports, the transfer of US dollar banknotes to Russia, and new investments involving the Russian energy sector have been, and in the future may continue to be, prohibited.

The unpredictable and evolving economic effects resulting from the Russia-Ukrainian conflict and the regulations, orders, and sanctions adopted by governments in response to this conflict may affect the value of a Client's investments or a Client's ability to acquire or dispose of such investments in an efficient manner. These factors may have negative consequences for the valuation of a Client's portfolio that the Firm may be unable to anticipate or hedge against.

**ASC 820—Fair Value Measurements and Disclosures; Potential GAAP vs. Valuation Policy Reporting Difference.** Each Client's assets and liabilities are valued in accordance with the Firm's valuation policy. However, for purposes of preparing a Client's annual audited financial statements, which are prepared in accordance with GAAP, certain of a Client's assets and liabilities may be valued in a manner that, while consistent with GAAP, is different from the manner in which such assets are valued pursuant to the valuation policy.

Specifically, for purposes of GAAP-compliant financial reporting, Clients are required to follow a specific framework for measuring the fair value of its assets and liabilities, and are required to provide certain additional disclosures regarding the use of fair value measurements in its audited financial statements. Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, formerly known as FAS 157 ("ASC 820"), defines and establishes a framework for measuring fair value under GAAP and expands financial statement disclosure requirements relating to fair value measurements. Other valuation-related requirements are contained in other provisions of GAAP, and sections of the codification. Additional FASB ASCs and updates and additional provisions of GAAP that may be adopted in the future may also impose additional, or different, specific requirements as to the valuation of assets and liabilities for purposes of GAAP-compliant financial reporting.

Accordingly, to the extent that GAAP would require any of a Client's assets or liabilities to be valued in a manner that differs from the valuation policy, such assets or liabilities will be valued (x) in accordance with GAAP, solely for purposes of preparing a Client's

GAAP-compliant annual audited financial statements, and (y) in accordance with the valuation policy (without regard to any GAAP requirements relating to the determination of fair value) for all other purposes, including, without limitation, for purposes of allocating gains and losses among the investors, which, as described in the Offering Documents, is relevant to, among other things, the determination of net asset value of a capital account, the calculation of any Management Fee and any Performance-Based Fees, and the amounts payable by a Client in respect of a withdrawal by or distribution to an investor.

Generally, accounting rules (including ASC 820) applicable to investment funds and various assets in which they invest are evolving. Such changes may adversely affect a Client. For example, the evolution of rules governing the determination of the fair market value of assets to the extent such rules become more stringent would tend to increase the cost and/or reduce the availability of third-party determinations of fair market value. This may in turn increase the costs associated with selling assets or affect their liquidity due to inability to obtain a third-party determination of fair market value.

**ASC 740—Accounting Changes; Effect on Net Asset Value.** Pursuant to FASB ASC 740, formerly known as FIN 48 ("ASC 740"), which provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in financial statements, Clients are required to determine whether a tax position, based on its technical merits, meets a more-likely-than-not recognition threshold that the position will be sustained upon examination. As a result of such a determination, Clients may be required to recognize a contingent tax liability in its net asset value calculation if the related tax position meets the recognition criterion in ASC 740 and, conversely, may be required to unrecognize a contingent tax liability in its net asset value calculation if the related tax position does not meet the recognition criterion in ASC 740. In addition, the net asset value of a Client may be adjusted if an uncertain tax position is settled. Since ASC 740 has only recently been adopted, Clients may be required to recognize in its financial statements contingent liabilities that under prior custom and practice in the industry would not have been recognized. Such contingent liabilities may also relate to time periods that predate an investor's investment in a Client. Recognition and measurement of each tax position, including any tax position for which there is a lack of authority and audit experience, is determined by the Principals, in its sole discretion, based on discussions with the Firm, tax advisers and the auditor and based on the facts and circumstances known at the time. There can be no assurance that any such determination will not change over time. Adjustments made to the net asset value of a Client in connection with the recognition or unrecognition of contingent tax liabilities may have a material positive or negative effect on certain investors and prospective investors, depending on the circumstances.

**Counterparty Risk.** Clients expect to establish relationships to obtain financing, derivative intermediation and prime brokerage services that permit Clients to trade in any variety of markets or asset classes over time. However, there can be no assurance that a Client will be able to establish or maintain such relationships. An inability to establish or maintain such relationships could limit a Client's trading activities, create losses, preclude a Client from engaging in certain transactions or prevent a Client 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 a Client's business due to a Client's reliance on such counterparties.

A Client may effect transactions in the "over-the-counter" or "OTC" derivatives markets. The stability and liquidity of OTC derivatives transactions depends in large part on the creditworthiness of the parties to the transactions. In the OTC markets, a Client enters into a contract directly with dealer counterparties which may expose a Client to the risk that a counterparty will not settle a transaction in accordance with its terms because of a solvency or liquidity problem with the counterparty. Delays in settlement may also result from disputes over the terms of the contract (whether or not bona fide). In addition, a Client may have a concentrated risk in a particular counterparty, which may mean that if such counterparty were to become insolvent or have a liquidity problem, losses would be greater than if a Client had entered into contracts with multiple counterparties. Certain OTC derivative contracts require that a Client post collateral.

If there is a default by a counterparty, a 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 and/or costs which could result in the net asset value of a Client being less than if a Client 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 a Client's investments from such counterparty or the payment of claims therefor may be significantly delayed and a Client may recover substantially less than the full value of the investments 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 a Client may terminate its agreement with an insolvent counterparty.

Collateral that a Client posts to 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 was to become insolvent, a Client 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, a Client 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 a Client's 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 a Client and its assets. Investors should assume that the insolvency of any such counterparty would result in significant delays in recovering a Client's investments from or the payment of claims therefor by such counterparty and a loss to a Client, which could be material.

**Competition; Availability of Investments.** Certain markets in which a Client may invest are extremely competitive for attractive investment opportunities. As a result, there can be no assurance that the Firm will be able to identify or successfully pursue attractive

investment opportunities in such environments.

**Co-Investments with Third Parties.** A Client may co-invest with third parties through joint ventures or other entities. Third-party involvement with an investment may negatively impact the returns of such investment if, for example, the third-party co-venturer has financial difficulties, has economic or business interests or goals that are inconsistent with those of a Client or is in a position to take (or block) action in a manner contrary to a Client's investment objective. In circumstances where such third parties involve a management group, such third parties may enter into compensation arrangements relating to such investments, including incentive compensation arrangements. Such compensation arrangements will reduce the returns to participants in the investments.

**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 (the one-week and two-month tenors of U.S. Dollar LIBOR ceased to be published after December 31, 2021). In anticipation of the end of LIBOR, the United States and other countries are replacing LIBOR with alternative Reference Rates. The Secured Overnight Financing Rate ("SOFR") (and with respect to term SOFR rates, the CME's term SOFR rates) is the Reference Rate recommended by the Alternative Reference Rates Committee (the "ARRC") convened by the U.S. Federal Reserve Board and the Federal Reserve Bank of New York. The ARRC and regulators have stated that any party choosing another Reference Rate should do so carefully. 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 respective counterparties. With respect to financial contracts to which a Client is a party, 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 which have other curative mechanisms available, such as safe harbor legislation adopted in the State of New York to permit the replacement of LIBOR with the rates recommended by the ARRC in contracts governed by New York law and the Adjustable Interest Rate (LIBOR) Act included in the Consolidated Appropriations Act, 2022) may need to be renegotiated, the process of which will consume resources of a Client and may result in disputes among counterparties, the result of which may be adverse to a Client. Regulators encouraged market participants to cease (and in the case of entities that they regulate, have required such entities to cease) entering into new contracts that use U.S. Dollar LIBOR as a reference rate. As a result, U.S. Dollar LIBOR's liquidity and usefulness is expected to diminish. Investors should expect that Clients will be a party to SOFR-based contracts, or contracts utilizing different Reference Rates. 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 the performance of such Client.

**General Economic and Market Conditions.** The success of a Client's activities will be affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of a Client's investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts, military conflicts or security operations). These factors may affect the level and volatility of the prices and the liquidity of a Client's investments. Volatility or illiquidity could impair a Client's profitability or result in losses. A Client may maintain substantial trading positions that can be adversely affected by the level of volatility in the financial markets.

**Risks of Investments in Physical Assets.** Clients will invest in hard assets such as rail cars, aircraft, intermodal and other related assets. These investments are subject to risks that include, among others, destruction, loss, terrorist attacks, industry-specific regulation (e.g., pollution control regulation), operating failures and labor relations. In addition, the regulation of such assets is extensive and variable, and a Client's investments in such assets could be wholly illiquid for long periods of time. Prices of physical assets are affected by factors such as global supply and demand, investors' expectations with respect to the rate of inflation, currency exchange rates, interest rates, investment and trading activities of hedge funds and commodity funds, and global or regional political, economic or financial events and situations. Markets can be volatile at times, and there may be sharp fluctuations in prices even during periods of rising prices.

**Infrastructure Risks.** Infrastructure assets may be subject to a variety of risks, not all of which can be foreseen or quantified, including: (i) the burdens of ownership of infrastructure; (ii) local, national and international political and economic conditions; (iii) the supply and demand for services from and access to infrastructure; (iv) the financial condition of users and suppliers of infrastructure assets; (v) changes in interest rates and the availability of funds which may render the purchase, sale or refinancing of infrastructure assets difficult or impracticable; (vi) changes in environmental laws and regulations, planning laws and other governmental rules; (vii) changes in energy prices; (viii) changes in fiscal and monetary policies; (ix) under-insured or uninsurable losses, such as force majeure acts and terrorist events and (x) other factors which are beyond the reasonable control of a Client. Many of the foregoing factors could cause fluctuations in usage, expenses and revenues, causing the value of investments to decline and a material adverse effect on a Client's investments. In acquiring or attempting to acquire infrastructure investments, a Client may need to participate in competitive bidding and may incur significant expenses in doing so. Many infrastructure investments are subject to substantial governmental regulation that could negatively impact the investment.

**Hazardous Materials.** One or more of a Client's rail car, aircraft and/or intermodal-related investments, as applicable, may transport hazardous materials. An accidental release of hazardous materials could result in significant loss of life and extensive property damage. The associated costs could have an adverse effect on a Client's operating results, financial condition or liquidity.

**Labor Unions.** Many employees in rail, air and/or intermodal asset-related companies in which a Client directly or indirectly invests are union-represented and work under

collective bargaining agreements with various labor organizations. If these union-represented employees were to engage in a strike, work stoppage or other slowdown, or other employees were to become unionized or their terms and conditions in future labor agreements were renegotiated, one or more of a Client's rail car, airline, and/or intermodal-related investments, as applicable, could experience significant disruption, which could impact the flow of new product.

**Governmental and Industry Regulations of Rail Car, Aircraft and Intermodal Operations.** A Client's respective rail car, aircraft and/or intermodal operations, as applicable, are subject to federal, state, administrative and industry laws and regulations. A Client could incur significant costs, fines and penalties as a result of any allegations or findings to the effect that such Client has violated or are strictly liable under these laws or regulations.

**Catastrophic Loss.** The operation of any rail car, aircraft or intermodal asset carries with it an inherent risk of catastrophe, mechanical failure, collision, and property loss. In the course of a Client's operations, spills or other environmental mishaps, cargo loss or damage, business interruption due to political developments, as well as labor disputes, strikes and adverse weather conditions, could result in a loss of revenues or increased liabilities and costs. Collisions, cargo leaks or explosions, environmental mishaps, or other accidents can cause serious bodily injury, death, and extensive property damage, particularly when such accidents occur in heavily populated areas. Additionally, operations may be affected from time to time by other catastrophic events, including the following: natural disasters such as earthquakes, volcanoes, floods, hurricanes or other storms (which may be caused, or enhanced in frequency and severity, by climate change factors); 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. The occurrence of any of these catastrophic events could have a material adverse effect on our operations and financial condition. Each Client maintains umbrella insurance that is consistent with industry practice against the accident-related risks involved in the conduct of our business and business interruption due to catastrophic events. However, this insurance is subject to a number of limitations on coverage, depending on the nature of the risk insured against. This insurance may not be sufficient to cover certain damages and may not continue to be available at commercially reasonable rates. In addition, a Client is subject to the risk that one or more of its insurers may become insolvent and would be unable to pay a claim that may be made in the future. Even with insurance, if any catastrophic interruption of service occurs, it may not be able to be restored without a significant interruption to operations which could have an adverse effect on the use of the rail cars, aircraft or intermodal assets.

In addition, adverse events directly and indirectly attributable to a Client, including incidents such as derailments, accidents, discharge of toxic or hazardous materials, or other like occurrences in the industry, may result in increases in a Client's insurance premiums and could result in limitations to the coverage under such Client's existing policies.

**Lack of Insurance on Cash and Other Liquid Assets.** The cash and other liquid assets

of a Client are not insured by any government or private insurer except to the extent portions of their respective portfolios may be deposited in bank accounts insured by the United States Federal Deposit Insurance Corporation and such deposits are subject to such insurance coverage (which, in any event, is limited in amount). Therefore, in the event of the insolvency of a depository or custodian, a Client may be unable to recover all of their funds.

**Leasing Risks.** A Client's investments may include various types of leases, including, without limitation, rail car, airplane and/or intermodal leases, as applicable. If a lessee goes bankrupt, its bankruptcy trustee may repudiate a lease and return the equipment or other property to the lessor. Other risks may arise out of the lessor-lessee relationship, including, without limitation, the lessee's failure to properly maintain the asset that is the subject of the lease.

**Long-Term Investments.** The success of a Client's long-term investment strategies depends upon the Firm's ability to identify and purchase investments that are undervalued and hold such investments to maximize value on a long-term basis. In pursuing any long-term strategy, the Firm may forego value in the short-term or temporary investments in order to be able to avail a Client of additional and/or longer-term opportunities in the future. Consequently, a Client may not capture maximum available value in the short-term, which may be disadvantageous, for example, for investors who withdraw all or a portion of their investment before such long-term value may be realized by a Client. Additionally, there may be little or no near-term cash flow available to the investors. Since a Client may only make a limited number of investments and since many of the investments may involve a high degree of risk, poor performance by a few of the investments could severely affect the total return to investors.

**Investment Expenses.** The investment expenses associated with a Client's contemplated investment program (including, but not limited to, interest expense incurred in connection with a Client's borrowings, as well as the costs of negotiating and documenting individual loan documents and leases), as well as other Client fees, may, in the aggregate, constitute a high percentage relative to other investment entities. Investment costs associated with financing and leasing, particularly in international or multi-jurisdictional transactions, may be particularly high, since each separate transaction is likely to require individual and negotiated transaction documentation. A Client will bear these costs regardless of their profitability.

**Non-U.S. Investments.** Investing outside of the United States involves certain considerations not usually associated with investing in securities of U.S. companies, 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 a Client's 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, a Client may be unable to structure its transactions to achieve the intended results or to mitigate all risks associated with such markets. It may also be difficult to enforce a Client's rights in such markets. For example, securities traded on non-U.S. exchanges and the non-U.S. persons that trade these instruments are not subject to the jurisdiction of the SEC or the CFTC or the securities and commodities laws and regulations of the U.S. Accordingly, the protections accorded to a Client under such laws and regulations are unavailable for transactions on non-U.S. exchanges and with non-U.S. counterparties.

**Dependence on Developing Countries.** The level of commodity prices can fluctuate widely due to supply and demand disruptions in major producing or consuming regions. In particular, recent growth in industrial production and gross domestic product has made many developing countries, particularly China, disproportionately large users of commodities and has increased the extent to which commodity prices are dependent on the markets of those developing countries. Political, economic and other developments that affect these developing countries may affect the level of certain commodities and, thus, the value of a Client's investments. Because certain commodities may be produced in a limited number of countries and may be controlled by a small number of producers, political, economic and supply-related events in those countries could have a disproportionate impact on the prices of commodity futures contracts and other types of financial instruments in which a Client will invest. Events affecting the prices of commodities tend to affect prices worldwide, regardless of the location of the event.

### **Risks Related to Leverage and Borrowing.**

*Leverage for Investment Purposes.* The use of leverage with respect to a Client and any related special purpose vehicles (each an "SPV") will allow a Client and its SPVs to make additional investments, thereby increasing their exposure to assets, such that their total assets may be greater than their capital. While leverage presents opportunities for increasing a Client's total return, it has the effect of potentially increasing losses as well. Accordingly, any event which adversely affects the value of an investment by a Client or its SPVs would be magnified to the extent an investment is leveraged. The cumulative effect of the use of leverage by a Client and its SPVs in a market that moves adversely to their investments could result in substantial losses to a Client and its SPVs, which would be greater than if a Client and its SPVs were not leveraged.

*Borrowing for Cash Management and other Purposes.* A Client also has the authority to borrow for cash management and other purposes, such as to satisfy withdrawal requests. The rates at and terms on which a Client can borrow will affect the operating results of a Client.

*Collateral.* The instruments and borrowings utilized by a Client and its SPVs to leverage investments may be collateralized by all or a portion of the Client's and its SPVs portfolios. Accordingly, a Client and/or its SPVs may pledge the investments in

order to borrow or otherwise obtain leverage for investment or other purposes. Should the investments pledged to brokers to secure a Client's and/or its SPVs' margin accounts decline in value, a Client and/or its SPVs could be subject to a "margin call", pursuant to which a Client and/or its SPVs must either deposit additional funds or investments with the broker or suffer mandatory liquidation of the pledged investments to compensate for the decline in value. The banks and dealers that provide financing to a Client and/or its SPVs 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 a Client and/or its SPVs may have similar rights. There can be no assurance that a Client's and/or its SPVs will be able to secure or maintain adequate financing.

*Costs.* 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 a Client's and/or its SPVs' portfolios.

**Diversification and Concentration.** The Firm is expected to select investments that are concentrated in rail cars, airplanes, intermodal and other hard assets. This limited diversification may result in the concentration of risk, which, in turn, could expose a Client to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in such investments.

**Hedging Transactions.** A Client may utilize investments for risk management purposes in order to: (i) protect against possible changes in the market value of a Client's investment portfolio resulting from fluctuations in the markets and changes in interest rates; (ii) protect a Client's unrealized gains in the value of its investment portfolio; (iii) facilitate the sale of any investments; (iv) enhance or preserve returns, spreads or gains on any investment in a Client's portfolios; (v) hedge against a directional trade; (vi) hedge the interest rate, credit or currency exchange rate on any of a Client's investments; (vii) protect against any increase in the price of any investments a Client anticipates purchasing at a later date; or (viii) act for any other reason that the Firm deems appropriate. A Client will not be required to hedge any particular risk in connection with a particular transaction or its portfolio generally. The Firm may be unable to anticipate the occurrence of a particular risk and, therefore, may be unable to attempt to hedge against it. While a Client may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for a Client than if it had not engaged in any such hedging transaction. Moreover, the portfolio will always be exposed to certain risks that cannot be hedged.

**Discretion of the Firm; New Strategies and Techniques.** While the Firm generally will seek to employ the representative investment strategies and techniques discussed herein, the Firm (subject to the policies and control of the General Partners) has considerable discretion in the types of investments a Client may invest and has the right to modify the investment strategies and techniques of a Client without the consent of the investors.

New investment strategies and techniques may not be thoroughly tested in the market before being employed and may have operational or theoretical shortcomings which could

result in unsuccessful trades and, ultimately, losses to a Client. In addition, any new investment strategy or technique developed by the Firm may be more speculative than earlier investment strategies and techniques and may involve material and as-yet-unanticipated risks that could increase the risk of an investment in a Client.

**Master Limited Partnerships.** An investment in a master limited partnership (an "MLP") unit involves risks that differ from those associated with investments in similar equity securities, such as common stock of a corporation. Holders of MLP units usually have the rights typically afforded to investors in a limited partnership, and as such have limited control and voting rights on matters affecting the partnership. In addition, there is the risk that an MLP could be, contrary to its intention, taxed as a corporation, resulting in decreased returns from such MLP. Further, conflicts of interest may exist between common unit holders, subordinated unit holders and the general partner of the MLP, including those arising from incentive distribution payments.

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

## **Commodities.**

*Factors affecting Commodities Prices.* The values of commodities which underlie the commodity futures contracts and other types of financial instruments are generally affected by, among other factors, the cost of producing commodities, changes in consumer demand for commodities, the hedging and trading strategies of producers and consumers of commodities, speculative trading in commodities by commodity pools and other market participants, disruptions in commodity supply, weather and climate conditions, changes in interest rates, rates of inflation, currency devaluations and revaluations, embargoes, tariffs, regulatory developments, governmental, agricultural, trade, fiscal, monetary and exchange control programs and policies, political and other global events and global economic factors. In addition, governments from time to time intervene, directly and by regulation, in certain markets, often with the intent to influence prices directly. The effects of governmental intervention may be particularly significant at certain times in certain markets and this intervention may cause these markets to move rapidly. Neither the Firm nor the Investment Manager have control over the factors that affect the price of commodities. Accordingly, the value of a Client's investments could change substantially and in a rapid and unpredictable manner.

*Cash Commodities.* Contracts governing the purchase and sale of specific physical commodities (known as "cash commodities") for immediate or deferred delivery may differ from each other with respect to terms such as quantity, grade, mode of shipment, terms of payment, penalties and risk of loss. There is no limit on daily price movements of cash commodities and banks, brokerage firms, and dealers in cash commodities are not required to continue to make markets in any commodity. Lastly, the CFTC does not comprehensively regulate cash transactions, which are subject to the risk of the

foregoing entities' failure, inability or refusal to perform with respect to such contract.

**Currencies.** A principal risk in trading currencies is the rapid fluctuation in the market prices of currency contracts. Prices of currency contracts traded by a Client are affected generally by relative interest rates, which in turn are influenced by a wide variety of complex and difficult to predict factors such as money supply and demand, balance of payments, inflation levels, fiscal policy, and political and economic events. In addition, governments from time to time intervene, directly and by regulation, in these markets, with the specific effect, or intention, of influencing prices which may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations.

**Debt Securities.** Generally, debt securities of all types of issuers may have speculative characteristics, regardless of whether they are rated. The issuers of such instruments (including sovereign issuers) may face significant on-going uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal in accordance with the terms of the obligations.

*Interest Rate Risk.* Changes in interest rates can affect the value of a Client's investments in fixed-income instruments. Increases in interest rates may cause the value of a Client's debt investments to decline. A Client may experience increased interest rate risk to the extent it invests, if at all, in lower-rated instruments, debt instruments with longer maturities, debt instruments paying no interest (such as zero-coupon debt instruments) or debt instruments paying non-cash interest in the form of other debt instruments.

*Prepayment Risk.* 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 a Client's 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 Investment Manager may have constructed for these investments, resulting in a loss to a Client's 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.

*Future Funding Obligations.* A Client may from time to time incur funding obligations that may arise in the future in connection with an investment. For example, the Firm may cause a Client to purchase from a lender a revolving credit facility that has not yet been fully drawn. If the borrower subsequently draws down on the facility, a Client would be obligated to fund the amounts due. If a Client is unable to pay its obligations when due, such Client could face significant penalties that could materially adversely affect its returns. A Client may also enter into agreements pursuant to which it agrees to assume responsibility for default risk presented by a third party, and may, on the other hand, enter into agreements through which third parties offer default protection to a Client.

*High-Yield.* 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 on-going 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, a Client 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.

A Client 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.* Bonds, notes and debentures issued by corporations 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, a Client may be paid interest in kind in connection with its investments in corporate debt and related financial instruments (e.g., the principal owed to a Client 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, a Client may experience substantial losses.

*Mezzanine Debt.* Mezzanine debt is typically junior to the obligations of a company to senior creditors, trade creditors and employees. The ability of a Client 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 a Client or similar event, a Client's debt investment therein will be subject to fraudulent conveyance, subordination and preference laws.

*Stressed Debt.* Stressed issuers 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.

*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 a Client engages in such conduct, such Client may be subject to claims from creditors of an obligor that debt held by a Client should be equitably subordinated.

**Equity Securities Generally.** The value of equity securities of public and private, listed and unlisted companies and equity derivatives generally varies with the performance of the issuer and movements in the equity markets. As a result, a Client may suffer losses if it invests in equity instruments of issuers whose performance diverges from the Firm's expectations or if equity markets generally move in a single direction and a Client has not hedged against such a general move. A Client also may be exposed to risks that issuers will not fulfill contractual obligations such as, in the case of convertible securities or private placements, delivering marketable common stock upon conversions of convertible

securities and registering restricted securities for public resale.

**Borrowings.** Clients may enter into credit facilities that are secured by the investors' capital commitments. In the event that a Client defaults under the credit agreement, the lenders would have the ability to call capital from the investors to repay outstanding borrowings thereunder.

**Investor Default.** An investor that defaults on any required payment in respect of its commitment may incur significant economic losses as a result of its default. A defaulting investor may be subject to a reduced capital account balance and forfeiture of all or any portion of future allocations and distributions as well as certain other adverse consequences set forth in the related Client Offering Documents. Furthermore, if contributions from non-defaulting investors are inadequate to cover the defaulted contribution, a Client may not be able to meet their obligations to make investments that they have agreed to make which could subject a Client to loss.

**Limited Liquidity of Investors.** An investment in a Client has limited liquidity because investors generally will have only limited rights to withdraw capital from a Client or transfer their interests, and a Client may have the right to suspend withdrawals. Investors must be prepared to bear the financial risks of an investment in a Client for an indefinite period of time.

**Liquidity Risks; Illiquidity of Investments.** A substantial majority of a Client's investments are expected to be illiquid, and a Client's investments may be concentrated in a limited number of illiquid investments. Certain securities and other investments held by a Client may also be illiquid because, for example, they are subject to legal or other restrictions on transfer. Valuation of a Client's illiquid investments may be difficult or uncertain. In addition, the sale of restricted and illiquid investments often requires more time and results in higher selling expenses than does the sale of securities eligible for trading on national securities exchanges or in OTC markets. A Client 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. Even those markets which the Firm 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. Consequently, it may be relatively difficult for a Client to dispose of certain investments rapidly and at favorable prices in connection with withdrawal requests, adverse market developments or other factors.

It is possible that the Firm may select investments that are concentrated in a limited number of illiquid financial instruments or assets. Such concentration of risk may increase the losses suffered by a Client or reduce its ability to hedge its exposure and to dispose of depreciating assets. Limited diversity in illiquid investments could expose a Client to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in those illiquid financial instruments or assets.

A Client may invest a significant amount of their capital in securities or other assets for which no, or only a limited, market exists or that are subject to legal or other restrictions on transfer. The market prices, if any, for such assets tend to be volatile, and may fluctuate

due to a variety of factors that are inherently difficult to predict, including, but not limited to, changes in interest rates, prevailing credit spreads, general economic conditions, financial market conditions, domestic or international economic or political events, developments or trends in any particular industry, and the financing condition of the obligors on a Client's assets. Accordingly, a Client may not be able to sell assets when such Client desires to do so or to realize what the General Partner perceives to be the fair value of their assets in the event of a sale. The sale of illiquid assets and restricted securities often requires more time and the incurrence of significant selling expense by a Client. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale. In addition, in times of extreme market disruption, there may be no market at all for one or more of the asset classes held by a Client, potentially resulting in the inability of such Client to dispose of their assets for an indefinite period of time.

### **Private Equity Investments.**

*Risk of Early Stage Companies.* Investments in the private equity of companies at an early stage of development involve a high degree of business and financial risk. Early-stage companies with little or no operating history may require substantial additional capital to support expansion or to achieve or maintain a competitive position, may produce substantial variations in operating results from period to period or may operate at a loss. Such companies may face intense competition, including competition from companies with greater financial resources, more extensive development, better marketing and service capabilities and a larger number of qualified management and technical personnel. Such risks may adversely affect the performance of such investments and result in substantial losses.

*Control Issues.* Although the Investment Manager may seek protective provisions, including, possibly, board representation, in connection with certain of its private equity investments, to the extent a Client takes minority positions in companies in which they invest, the Investment Manager may not be in a position to exercise control over the management of such companies, and, accordingly, may have a limited ability to protect its position in such companies.

*Highly-Leveraged Companies.* Investments in private equity of highly-leveraged companies involve a high degree of risk. The use of leverage may increase the exposure of such companies to adverse economic factors such as downturns in the economy or deterioration in the conditions of such companies or their respective industries. In the event any such company cannot generate adequate cash flow to meet debt service, a Client may suffer a partial or total loss of capital invested in the company, which, depending on the size of a Client's investments, could adversely affect the return on the capital of such Client.

**Derivative Instruments.** Certain swaps, options and other derivative instruments may be subject to various types of risks, including but not limited to market risk, liquidity risk, credit risk, legal risk and operations risk. Derivative instruments traded over-the-counter may not have an authoritative source of valuation and the models used to value such derivatives are subject to change. Special risks may apply in the future that are not presently contemplated. The regulatory and tax environment for derivative instruments in



which a Client may participate is evolving, and changes in the regulation or taxation of such investments may have a material adverse effect on a Client.

*Regulation in the Derivatives Industry.* There are many financial regulations related to derivatives that may negatively impact a Client, 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 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 Firm and its Clients, and increase the amount of time that the Firm spends on non-investment-related activities. Requirements such as these will raise the costs of entering into derivative transactions, and these increased costs will likely be passed on to each Client. The new rules also add additional operational and technological burdens on the Firm and its Clients. Currently, with respect to swaps, each Client must engage in portfolio reconciliation, recordkeeping, reporting and other transaction level obligations, which increase the compliance burdens and costs to a Client.

These rules are operationally and technologically burdensome for the Firm and its Clients. These compliance obligations require employee training and use of technology, and there are operational risks as the Firm and its Clients implement procedures to comply with many of these additional obligations.

These regulations may also result in a Client 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 a Client from a regulatory perspective. However, this could limit a Client's trading activities, create losses, preclude a Client from engaging in certain transactions or prevent a Client from trading at optimal rates and terms.

Many of these requirements were implemented under legislation intended to reform the U.S. financial regulatory system, 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, regulatory responsibility for derivatives is divided 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, that are still in the proposal stage or are expected to be introduced in the future.

The following describes derivatives regulations that may have the most significant impact on a Client:

*Reporting.* Certain swap transactions have become subject to anonymous "real time reporting" requirements meaning that information relating to transactions entered into by a Client will become visible to the market in ways that may impair a Client's ability to enter into additional transactions at comparable prices or could enable competitors to "front run" or replicate a Client's strategies.

*Central Clearing.* In order to mitigate counterparty risk and systemic risk in general, various U.S. and international regulatory initiatives, including EMIR, are underway to require certain derivatives to be cleared through central clearinghouses. In the United States, clearing mandates affect certain interest rate and credit default swaps. The CFTC and the SEC may introduce clearing requirements for additional classes of derivatives in the future. EMIR also requires OTC derivatives contracts meeting specific criteria to be cleared through central counterparties.

While such clearing requirements may be beneficial for a Client in many respects (for instance, they may reduce the counterparty risk to the dealers to which a Client would be exposed under non-cleared derivatives), the Clients could be exposed to new risks, such as the risk that an increasing percentage of derivatives will be required to be standardized and/or cleared through central clearinghouses, and, as a result, the Clients may not be able to hedge their risks or express an investment view as well as they would have been able to had they used customizable derivatives available in the over-the-counter markets. A Client may have to split their derivatives portfolio between centrally cleared and over-the-counter derivatives, which may result in operational inefficiencies and an inability to offset risk between centrally cleared and over-the-counter positions, and which could lead to increased costs.

Another risk is that a Client may be subject to more onerous and more frequent (daily or even intraday) margin calls from both a Client's FCM and the clearinghouse. Virtually all margin models utilized by the clearinghouses are dynamic, meaning that unlike traditional bilateral swap contracts where the amount of initial margin posted on the contract is typically static throughout the life of the contract, the amount of the initial margin that is required to be posted in respect of a cleared contract will fluctuate, sometimes significantly, throughout the life of the contract. The dynamic nature of the margin models utilized by the clearinghouses and the fact that the margin models might be changed at any time may subject a Client to an unexpected increase in collateral obligations by clearinghouses during a volatile market environment, which could have a detrimental effect on a Client. Clearinghouses also limit collateral that they will accept to cash, U.S. treasuries and, in some cases, other highly rated sovereign and private debt instruments, which may require a Client to borrow eligible securities from a dealer to meet margin calls and raise the costs of cleared trades to such Client. In addition, clearinghouses may not allow a Client to portfolio-margin its positions, which may increase such Client's costs.

Although standardized clearing for derivatives is intended to reduce counterparty risk (for instance, it may reduce the counterparty risk to the dealers to which a Client would have been exposed under OTC derivatives), it does not eliminate risk. Derivatives clearing may also lead to concentration of counterparty risk, namely in the clearinghouse and a Client's FCM, subjecting such Client to the risk that the assets of the FCM are insufficient to satisfy all of the FCM's payment obligations, leading to a payment default. The failure of a clearinghouse or FCM could have a significant impact on the financial system. Even if a clearinghouse does not fail, large losses could force significant capital calls on FCMs during a financial crisis, which could lead FCMs to default and thus worsen the crisis. CFTC rules governing the operation of SEFs continue to evolve; the SEC has yet to finalize rules related to security-based SEFs.

*Swap Execution Facilities.* In addition to the central clearing requirement, certain swap transactions are required to trade on regulated electronic platforms such as swap execution facilities ("SEFs")), which will require a Client to subject themselves to regulation by these venues and subject a Client to the jurisdiction of the CFTC.

The EU regulatory framework governing derivatives is set not only by EMIR but also a legislative package known as a recast of the Markets in Financial Instruments Directive ("MiFID II"). Among other things, MiFID II requires transactions in derivatives to be executed on regulated trading venues.

It is not clear whether these trading venues will benefit or impede liquidity, or how they will fare in times of market stress. Trading in these trading venues may increase the pricing discrepancy between assets and their hedges as products may not be able to be executed simultaneously, therefore increasing basis risk. It may also become relatively expensive for a Client to obtain tailored swap products to hedge particular risks in its portfolio due to higher collateral requirements on bilateral transactions as a result of these regulations.

*Margin Requirements for Non-Cleared Swaps.* Rules issued by U.S., EU and other regulators globally (the "Margin Rules") impose various margin requirements on all swaps that are not centrally cleared, including the establishment of minimum amounts of initial margin that must be posted, and, in some cases, the mandatory segregation of initial margin with a third-party custodian. Although the Margin Rules are intended to increase the stability of the derivatives market, the overall amount of margin that a Client will be required to post to swap counterparties may increase by a material amount, and as a result a Client may not be able to deploy capital as effectively. Additionally, to the extent a Client is required to segregate initial margin with a third party custodian, additional costs will be incurred by such Client.

*Call Options.* The seller (writer) of a call option which is covered (i.e., the writer holds the underlying investment) assumes the risk of a decline in the market price of the underlying investment below the purchase price of the underlying investment less the premium received, and gives up the opportunity for gain on the underlying investment above the exercise price of the option. The seller of an uncovered call option assumes

the risk of a theoretically unlimited increase in the market price of the underlying investment above the exercise price of the option. The investments necessary to satisfy the exercise of an uncovered call option may be unavailable for purchase, except at much higher prices, thereby reducing or eliminating the value of the premium. Purchasing investments to cover the exercise of an uncovered call option can cause the price of the investments to increase, thereby exacerbating the loss. The buyer of a call option assumes the risk of losing its entire premium investment in the call option.

*Put Options.* The seller (writer) of a put option which is covered (i.e., the writer has a short position in the underlying investment) assumes the risk of an increase in the market price of the underlying investment above the sales price (in establishing the short position) of the underlying investment plus the premium received, and gives up the opportunity for gain on the underlying investment if the market price falls below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying investment below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option.

*Index or Index Options.* The value of an index or index option fluctuates with changes in the market values of the assets included in the index. Because the value of an index or index option depends upon movements in the level of the index rather than the price of a particular asset, whether a Client will realize appreciation or depreciation from the purchase or writing of options on indices depends upon movements in the level of instrument prices in the assets generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular assets.

*Index Futures.* The price of index futures contracts may not correlate perfectly with the movement in the underlying index because of certain market distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, participants may close futures contracts through offsetting transactions that would distort the normal relationship between the index and futures markets. Second, from the point of view of speculators, the deposit requirements in the futures market are less onerous than margin requirements in the securities market. Therefore, increased participation by speculators in the futures market also may cause price distortions. Successful use of index futures contracts by a Client also is subject to the Firm's ability to correctly predict movements in the direction of the market.

*Credit Default Swaps.* Credit default swaps can be used to implement the Firm's view that a particular credit, or group of credits, will experience credit improvement or deterioration. In the case of expected credit improvement, a Client may sell credit default protection in which it receives a premium to take on the risk. In such an instance, the obligation of a Client to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. A Client may also buy credit default protection with respect to a referenced entity if, in the Firm's judgment, there is a high likelihood of credit deterioration. In such instance, a Client will pay a premium regardless of whether there is a credit event.

*Futures Contracts.* The value of futures contracts depends upon the price of the investments, such as commodities, underlying them. The prices of futures contracts are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, as well as national and international political and economic events and policies. In addition, investments in futures contracts are also subject to the risk of the failure of any of the exchanges on which a Client's positions trade or of its clearing houses or counterparties. Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits". Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent a Client from promptly liquidating unfavorable positions and subject such Client to substantial losses or prevent it from entering into desired trades. Also, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss. In extraordinary circumstances, a futures exchange or the CFTC could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

*Forward Contracts.* A Client may enter into forward contracts and options thereon, including non-deliverable forwards. The principals who deal in the forward contract market are not required to continue to make markets in such contracts. There have been periods during which certain participants in forward markets have refused to quote prices for forward contracts or have quoted prices with an unusually widespread between the price at which they were prepared to buy and that at which they were prepared to sell. The imposition of credit controls or price risk limitations by governmental authorities may limit such forward trading to less than that which the Investment Manager would otherwise recommend, to the possible detriment of a Client. In their forward trading, a Client will be subject to the risk of the failure of, or the inability or refusal to perform with respect to their forward contracts by, the principals with which a Client trades. Client assets on deposit with such principals will also generally not be protected by the same segregation requirements imposed on certain regulated brokers in respect of customer funds on deposit with them. The Investment Manager may order trades for a Client in such markets through agents. Accordingly, the insolvency or bankruptcy of such parties could also subject a Client to the risk of loss.

*Contracts for Differences.* Contracts for differences ("CFDs") are privately negotiated contracts between two parties, buyer and seller, stipulating that the seller will pay to or receive from the buyer the difference between the nominal value of the underlying instrument at the opening of the contract and that instrument's value at the end of the contract. The underlying instrument may be a single security, stock basket or index. A CFD can be set up to take either a short or long position on the underlying instrument.

The buyer and seller are both required to post margin, which is adjusted daily. The buyer will also pay the seller a financing rate on the notional amount of the capital employed by the seller less the margin deposit. As is the case with trading any financial instrument, there is the risk of loss associated with trading a CFD.

There may be liquidity risk if the underlying instrument is illiquid because the liquidity of a CFD is based on the liquidity of the underlying instrument. A further risk is that adverse movements in the underlying security will require the posting of additional margin. CFDs also carry counterparty risk, i.e., the risk that the counterparty to the CFD transaction may be unable or unwilling to make payments or to otherwise honor its financial obligations under the terms of the contract. If the counterparty were to do so, the value of the contract may be reduced. Entry into a CFD transaction may, in certain circumstances, require the payment of an initial margin and adverse market movements against the underlying stock may require additional margin payments. CFDs may be considered illiquid. To the extent that there is an imperfect correlation between the return on a Client's obligation to its counterparty under the CFDs and the return on related assets in its portfolio, the CFD transaction may increase such Client's financial risk.

*Non-U.S. Futures Transactions.* Foreign futures transactions involve executing and clearing trades on a foreign exchange. This is the case even if the foreign exchange is formally "linked" to a domestic exchange, whereby a trade executed on one exchange liquidates or establishes a position on the other exchange. No domestic organization regulates the activities of a foreign exchange, including the execution, delivery, and clearing of transactions on such an exchange, and no domestic regulator has the power to compel enforcement of the rules of the foreign exchange or the laws of the foreign country. Moreover, such laws or regulations will vary depending on the foreign country in which the transaction occurs. For these reasons, a Client may not be afforded certain of the protections which apply to domestic transactions, including the right to use domestic alternative dispute resolution procedures. In particular, funds received from customers to margin foreign futures transactions may not be provided with the same protections as funds received to margin futures transactions on domestic exchanges. In addition, the price of any foreign futures or option contract and, therefore, the potential profit and loss resulting therefrom, may be affected by any fluctuation in the foreign exchange rate between the time the order is placed and the time the foreign futures contract is liquidated or the time the foreign option contract is liquidated or exercised.

*Failure to Enter into Offsetting Trade.* To the extent a Client invests in a futures contract or long option, unless an offsetting trade is made, such Client would be required to take physical delivery of the commodity underlying the future or option. To the extent the Firm fails to enter into such offsetting trade prior to the expiration of the contract, a Client may suffer a loss since neither such Client nor the Firm has the operational capacity to accept physical delivery of commodities.

*Exotic Options.* Exotic options are typically, but not always, traded over-the-counter. OTC contracts may not trade in a liquid market and pricing may be opaque. The illiquidity of these markets can be exacerbated in times of market stress. A Client may

incur substantial costs entering into and exiting positions that could have a material impact on performance. Exotic options may be subject to a higher degree of pricing risk as demonstrated by instances in which different counterparties in the market employ different valuation and pricing methodologies to the same exotic option. Because exotic options can often be highly customized, there is lower visibility with respect to the pricing and valuation of these instruments. Exotic options may be subject to high levels of price volatility. For example, in the case of barrier options, as the price of the asset underlying the option trades closer to a barrier level, the delta of the option (i.e., the ratio of the change in the price of the underlying asset to the corresponding change in the price of the option) and the gamma of the option (i.e., the rate of change of the delta with respect to the underlying asset's price) may become very high. Exotic options may be subject to higher levels of model risk than commonly traded options because standard models are not able to adequately capture or predict the risks associated with the exotic options. Exotic options may be "path dependent". This means that their terminal value (at exercise or expiration) depends upon the value of the underlying asset, not only at the time of exercise or expiration, but also at prior points in time. In this sense, the option's terminal value depends upon the "path" taken by the underlying asset over the life of the option. For example, a barrier option's value at expiration depends upon both the value of the underlying asset at expiration and whether the past value of the underlying asset ever satisfied a barrier condition. In contrast, a vanilla option (e.g., a call option) is not path dependent. Its value at exercise or expiration depends on the value of the underlying asset only at that point in time. The additional features incorporated by exotic options require additional judgments regarding the likelihood of certain conditions being satisfied, any one of which can result in loss if made incorrectly. An OTC option may be closed out only with the counterparty, although either party may engage in an offsetting transaction that puts that party in the same economic position as if it had closed out the option with the counterparty; however, the exposure to counterparty risk may differ. OTC options generally involve greater credit and counterparty risk than exchange-traded options.

### **Air Funds' Risks**

**Aircraft Oversupply in the Industry and Decline in the Value and Lease Rates for Aircraft that the Air Funds Own Could Result in an Impact to the Air Funds' Earnings and Cash flows.** The aircraft leasing business has experienced periods of aircraft oversupply at various times in the past, including during the early stages of the COVID-19 pandemic, during and after the September 11, 2001 terrorist attacks and during and after the 2008 financial crisis. The oversupply of a specific type of aircraft is likely to depress the lease rates for, and the value of, that type of aircraft, including upon sale. Further, over recent years, the airline industry has committed to a significant number of aircraft deliveries through order placements with manufacturers, and in response, aircraft manufacturers have generally raised their production output. Increases in production levels could result in an oversupply of relatively new aircraft if growth in airline traffic does not meet airline industry expectations. Additionally, if overall lending capacity to purchasers of aircraft does not increase in line with the increased aircraft production levels, the cost of lending or ability to obtain debt to finance aircraft purchases could be negatively affected. Oversupply may produce sharp and prolonged decreases in market lease rates and residual values and may affect the Air Funds' ability to remarket or sell at a profit, or

at all, some of the aircraft in the Air Funds' portfolio which would impact the Air Funds' returns and cash flows.

From time to time, aircraft values and lease rates have experienced declines due to a variety of factors outside of the Air Funds' control that may impact the aviation industry generally or are more specific to certain aircraft in the Air Funds' fleet. For example, the effects of COVID-19 pandemic related travel restrictions, as well as, groundings and aircraft production delays, have each impacted, and may continue to impact lease rates or the Air Funds' ability to lease certain aircraft in the Air Funds' fleet or orderbook. Other factors include, but are not limited to: manufacturer production levels and technological innovation; the number of airlines operating the aircraft; the Air Funds' lessees' failure to maintain the Air Funds' aircraft; the impact of decisions by the regulatory authority under which the aircraft is operated and any applicable airworthiness directives, service bulletins or other regulatory action that could prevent or limit utilization of the aircraft. As a result of these factors, the Air Funds' earnings and cash flows may be impacted by any decrease in the value of aircraft that the Air Funds own or acquire or decrease in market rates for leases for these aircraft.

**The Air Funds are Subject to Many of the Economic and Political Risks Associated with Doing Business in Emerging Markets, Which May Expose the Air Funds to a Greater Number of Lessee Defaults Resulting in Losses and Additional Costs.** The Air Funds' business involves leasing aircraft to airlines in emerging market countries. Emerging market countries typically have less developed economies and infrastructure and are often more vulnerable to economic and geopolitical challenges and may experience significant fluctuations in gross domestic product, interest rates and currency exchange rates, as well as civil disturbances, government instability, nationalization and expropriation of private assets and the imposition of unexpected taxes or other charges by government authorities. This can result in economic instability which could negatively affect the ability of the Air Funds' lessees to meet their lease obligations leading to higher default rates compared to lessees that operate in developed countries. We also may experience challenges in leasing or re-leasing aircraft in emerging markets experiencing economic instability. In addition, legal systems in emerging market countries may be less developed, less predictable and have different liability standards than those in advanced economies, which could make it more difficult for the Air Funds to enforce our legal rights in such countries. As a result of these factors, doing business in emerging markets may expose the Air Funds to a greater number of customer defaults resulting in losses and additional costs.

**There Are a Limited Number of Airframe and Engine Manufacturers; and the Failure of Any Manufacturer to Meet Its Delivery Obligations to the Air Funds Could Adversely Affect the Air Funds.** The supply of commercial aircraft is dominated by a limited number of airframe and engine manufacturers. As a result, the Air Funds will be dependent on the success of these manufacturers in remaining financially stable, producing products and related components which meet the airlines' demands and fulfilling any contractual obligations they may have to the Air Funds, which is in turn dependent on a number of factors over which the Air Funds have little or no control. Those factors include the availability of raw materials and manufactured components, changes in highly exacting performance requirements and product specifications, economic conditions, changes in the



regulatory environment and labor relations and negotiations between manufacturers and their respective workforces, most of which have been and continue to be adversely affected by the COVID-19 pandemic. If manufacturers fail to meet their contractual obligations to the Air Funds, the Air Funds may experience:

- missed or late delivery of aircraft and a potential inability to meet their contractual obligations owed to any of their then lessees, resulting in potential lost or delayed revenues, and strained customer relationships;
- an inability to acquire aircraft and engine components, resulting in lower growth or contraction in the Air Funds' aircraft fleet;
- reduced demand for a particular manufacturer's product, which may lead to reduced market lease rates and lower aircraft residual values and may affect the Air Funds' ability to remarket or sell at a profit, or at all, some of the aircraft in the Air Funds' fleet; and
- technical or other difficulties with aircraft or engines after delivery that subject aircraft to operating restrictions or groundings, resulting in a decline in residual value and lease rates of such aircraft and impair the Air Funds' ability to lease or dispose of such aircraft on favorable terms or at all.

There have been well-publicized delivery delays by airframe and engine manufacturers. If there are manufacturing delays for aircraft for which the Air Funds have made future lease commitments, some or all of the Air Funds' affected lessees could elect to terminate their lease arrangements with respect to such delayed aircraft. Any such termination could strain the Air Funds' relations with those lessees going forward and would adversely affect the Air Funds' results and prospects.

**Changes in Fuel Costs Could Negatively Affect the Air Funds' Lessees and, by Extension, the Demand for the Air Fund's Aircraft.** Historically, fuel prices have fluctuated widely depending primarily on international market conditions, geopolitical and environmental events, and currency exchange rates. The cost of fuel represents a major expense to airlines that is not within their control, and significant increases in fuel costs or hedges that inaccurately assess the direction of fuel costs can materially and adversely affect their operating results. Due to the competitive nature of the aviation industry, operators may be unable to pass on increases in fuel prices to their customers by increasing fares in a manner that fully offsets increased fuel costs. In addition, they may not be able to manage this risk by appropriately hedging their exposure to fuel price fluctuations. Airlines that do hedge their fuel costs can also be adversely affected by swift movements in fuel prices if such airlines are required as a result to post cash collateral under hedge agreements. Therefore, if fuel prices materially increase or show significant volatility, the Air Funds' lessees are likely to incur higher costs or generate lower revenues, which may affect their ability to meet their obligations to the Air Funds. A sustained period of lower fuel costs may also adversely affect regional economies that depend on oil revenue, including those in which certain of the Air Funds' lessees operate. Should changes in fuel costs negatively affect the Air Funds' lessees or demand for the Air Funds' aircraft, the Air Funds' may be negatively impacted.

**Use of Third-Party Consultants.** The Air Funds will, from time to time, engage third-party consultants and advisors who have specialized knowledge of the aviation industry and/or the commercial aircraft and engines leasing business, but who provide such consulting or advisory services to other persons or entities, including those that compete with the Air Funds. When seeking to obtain the advice of outside experts, the Air Funds oftentimes will need to reveal certain of their trade secrets and other confidential and proprietary information (collectively, "Trade Secrets"). Although the Air Funds will seek to negotiate contractual restrictions on the use and disclosure of Trade Secrets by their outside experts, there can be no assurance that one or more of the consultants and/or advisors will not use Trade Secrets for their own personal benefit or wrongfully disclose Trade Secrets to others, including competitors of the Air Funds. Such misuse or wrongful disclosure of Trade Secrets by any one or more of the Air Funds outside experts could have a materially adverse effect on the Air Funds and their business.

**Lack of Transparency in the Commercial Aircraft and Engines Leasing Industry.** Unlike some other industries where information is publicly available and/or accessible, the commercial airline and engines leasing industry is not readily transparent. For example, there is no governmental or quasi-governmental database that may be used to verify lease rates and/or purchase and sale values.

**If the Air Funds Cannot Maintain Relationships With Various Deal Sources, Their Ability to Generate Transactions and Related Revenues May Be Significantly Impeded.** The management team has relationships with global commercial airlines, lessors, aircraft manufacturers, aircraft brokers and financial institutions. The Air Funds rely on these relationships to generate deals. The management team intends to invest significant time and resources in establishing and maintaining these relationships. The Air Funds' failure to maintain effective relationships with these parties or decisions by them to refer transactions to, or to sign contracts with, other sources could impede the Air Funds' ability to generate leases contemplated by their investment program.

### **Intermodal Funds' Risks**

**Limited Operating History.** Although the Investment Manager is an existing entity, the Intermodal Funds and the Intermodal Funds' General Partner are newly formed entities and have a limited operating history upon which prospective investors may evaluate their future performance and prospects, including their ability to acquire intermodal assets on favorable terms or to enter into profitable intermodal leases. The investment professionals of the Investment Manager have been using investment strategies similar to the investment strategies described herein in other private investment funds for several years. However, there can be no assurance that the Intermodal Funds and the Intermodal Funds' General Partner or the Investment Manager will achieve results comparable to those that the investment professionals have achieved in the past.

**Container Risks.** The Intermodal Funds' investment program will include leasing, managing and selling containers (either directly or indirectly through related companies). Successfully leasing containers to container shipping lines, earning management fees on leased containers, selling used containers and sourcing capital required to purchase new

and used containers depends, in part, upon the continued demand to lease containers and purchase used containers. Demand for leased containers depends largely on the rate of growth of world trade and economic growth, with worldwide consumer demand being the most critical factor affecting this growth. The Investment Manager cannot predict whether, or when, downturns in demand will occur or the severity or duration of any downturn. Other material factors affecting demand for leased containers: prices of new and used containers; economic conditions, profitability, competitive pressures and consolidation in the container shipping and container leasing industry; shifting trends and patterns of cargo traffic; fluctuations in demand for containerized goods outside their area of production; the availability and terms of container financing for us, our competitors and customers; fluctuations in interest rates and currency exchange rates; overcapacity, under-capacity and consolidation of container manufacturers; the lead times required to purchase containers; the number of containers purchased in the current year and prior years by competitors and container lessees; container ship fleet overcapacity or under-capacity; repositioning by container shipping lines of their own empty containers to higher demand locations in lieu of leasing containers; port congestion and the efficient movement of containers as affected by labor disputes, work stoppages, increased vessel size, shipping line alliances or other factors that reduce or increase the speed at which containers are handled; consolidation, withdrawal or insolvency of individual container shipping lines; actual or threatened import/export tariffs, duties, restrictions or trade disputes; customs procedures, foreign exchange controls and other governmental regulations, including environmental or maritime rules that impact container shipping; natural disasters or global pandemics that are severe enough to affect local and global economies or interfere with trade; and other political and economic factors.

**Industry Consolidation.** The Intermodal Funds' investment program will include leasing, managing and selling containers (either directly or indirectly through related companies). The Intermodal Funds' container leasing, management and sales operations, or the operations of companies in which the Intermodal Funds invest, depend on a limited number of container lessees. Due to the ongoing consolidation in the shipping line industry, a default by any of the Intermodal Funds' shipping line lessees would result in a major reduction in leasing revenue, large repossession expenses, potentially large lost equipment charges and could result in a material adverse impact on the Intermodal Funds' performance and financial condition.

The introduction and use of very large container ships on the major trade lanes may lead to further industry consolidation and shipping line alliance participation, and even greater reliance by the Intermodal Funds (or the companies in which it invests) on the largest customers, and may negatively impact the performance of smaller and mid-size shipping lines. Several of the largest shipping lines have invested heavily in these very large ships and reportedly have achieved meaningful unit cost advantages and increased market share on the major trade lanes. In response, some smaller shipping lines have started to exit the major trade lanes, while others are seeking to form closer operating partnerships.

The shipping industry has been consolidating for a number of years, and further consolidation is possible. Historically, shipping lines have also formed a number of alliances to share vessel space and the creation of new alliances and changes in the membership of

each alliance is ongoing. If shipping line alliances are effective at making shipping lines more efficient, this could reduce the demand for containers. The growth of alliances may also add pressure to those shipping lines that do not join an alliance as they may find it more difficult to cost effectively serve shippers needs and/or shippers may choose to only ship cargo with alliances due to solvency concerns or otherwise. Additionally, large container shipping lines with significant resources could choose to manufacture or purchase their own containers, which would decrease their demand for leased containers and could harm the Intermodal Funds' business, results of operations and financial condition.

**International Trade Risks; Risks Relating to China.** The Intermodal Funds may invest in, or may invest in companies that invest in, containers or other intermodal assets used in trade involving goods being shipped from the People's Republic of China and other Asian countries to the United States, Europe, Latin America or other regions and within Asia. The willingness and ability of international consumers to purchase foreign goods is dependent on political support for an absence of government-imposed barriers to international trade in goods and services. For example, if the price differential between foreign goods and domestically-produced goods were to decrease (e.g., due to increased tariffs on foreign goods, strengthening in the applicable foreign currencies relative to domestic currencies, rising wages, increasing input or energy costs or other factors) demand for foreign goods could decrease, which could result in reduced demand for intermodal container leasing. The long term impact of governmental regulation on international trade and cargo demand is uncertain.

As discussed above, a substantial portion of the Intermodal Funds' investments will relate to trade involving goods being shipped from China. A reduction in demand for China-related intermodal container leasing could result from an increased use of quotas or other technical barriers to restrict trade or otherwise limit foreign investment. In recent years, a number of major trading economies implemented, and increased tariffs and other trade restrictions and significant renegotiations of existing trade agreements commenced (albeit with partial resolutions of certain disputes). If these trade restrictions and tariffs continue or increase it may materially impact container demand and change trade patterns, which could materially affect the Intermodal Funds' investment program.

In addition, the political and economic policies of China and the level of economic activity in China may have a significant impact on the Intermodal Funds' investments and its financial performance. Changes in the political leadership of China may have a significant effect on laws and policies that impact economic growth and trade and the corresponding need for containers to ship goods from China, including the introduction of measures to control inflation, changes in the rate or method of taxation, and the imposition of additional restrictions on currency conversion, remittances abroad and foreign investment. Moreover, economic reforms and growth in China have been more successful in certain provinces than in others, and the continuation of or increases in such disparities could affect China's political and/or social stability. Furthermore, the current high level of debt by some companies in China may lead to defaults which may not be supported by the Chinese government. In recent years the rate of economic growth in China has declined. Additionally, government policies that reduce the emphasis on manufacturing and increase priorities for domestic consumption and services may alter trade patterns and dampen demand for containers. Chinese government environmental policies and practices may reduce steel production

which would impact container costs and may limit factory production, which could impact trade growth and container demand. A reduced rate of economic growth, changes to economic or trade policy or political instability in either China or Taiwan could have a negative effect on the Intermodal Funds' ability to make intermodal investments and correspondingly, the operations and financial condition of the Intermodal Funds may be adversely affected.

**Legal Risks Related to International Intermodal Investments.** Disputes or settlements arising out of container lease or other agreements related to the Intermodal Funds' global investment program may need to be enforced in the applicable countries where the underlying assets are located, including China. The Chinese legal system is based on written statutes, and prior court decisions may be cited for reference but have limited precedential value. Since 1979, legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since these laws and regulations are relatively new and the Chinese legal system continues to evolve, the interpretations of many laws, regulations and rules are not always uniform and may be subject to considerable discretion, variation, or influence by external forces unrelated to the legal merits of a particular matter. The enforcement of these laws, regulations, and rules involves uncertainties that may limit remedies available to us. Any litigation or arbitration in China may be protracted and may result in substantial costs and diversion of resources and management attention. In addition, China may enact new laws or amend current laws that may be detrimental to us, which may have a material adverse effect on the Intermodal Funds' operations. If the Investment Manager is unable to enforce legal rights under contracts or otherwise in China or other countries outside the United States, the Intermodal Funds' ability to achieve its investment objective could be harmed.

As the Intermodal Funds will make intermodal investments involving goods being shipped to locations throughout the world, it is not possible to predict, with any degree of certainty, the jurisdictions in which enforcement proceedings may be commenced. Litigation and enforcement proceedings have inherent uncertainties in any jurisdiction and are expensive. These uncertainties are enhanced in countries that have less developed legal systems where the interpretation of laws and regulations is not consistent, may be influenced by factors other than legal merits and may be cumbersome, time-consuming and increasingly costly. For example, repossession from defaulting lessees may be difficult and more expensive in jurisdictions whose laws do not confer the same security interests and rights to creditors and lessors as those in the United States and where the legal system is not as well developed. Additionally, even if the Intermodal Funds are ultimately successful in obtaining judgments against defaulting lessees, these lessees may have limited owned assets and/or heavily encumbered assets and the collection and enforcement of a monetary judgment may be unsuccessful. As a result, the remedies available and the relative success and expedience of collection and enforcement proceedings with respect to Intermodal Investments in various jurisdictions cannot be predicted.

In addition, although there are filing systems related to certain limited classes of containers, there is no internationally recognized system of recordation or filing to evidence title to containers nor is there an internationally recognized system for filing security interests in containers. The lack of a title recordation system with respect to containers could result in

disputes with lessees, end-users, or third parties who may improperly claim ownership of containers.

**Liens.** The Intermodal Funds may invest in, or may invest in companies related to, intermodal investments in which depot operators, manufacturers, repairmen, terminals, ship owners and transporters do come into possession of their containers from time to time and have amounts due to them from the lessees or sublessees of the containers. In the event of nonpayment of those charges by the lessees or sublessees, the Intermodal Funds or its investments may be delayed in, or entirely barred from, repossessing the containers, or be required to make payments or incur expenses to discharge the lien to take possession of their containers.

**Ownership Risk.** The Intermodal Funds may own, or may invest in companies that own, containers, chassis, intermodal, maritime, trailers and other related assets. Ownership entails greater risk than management of intermodal assets, including increased exposure to financing costs, financing risks, changes in leasing rates, re-leasing risk, changes in utilization rates, lessee defaults, repositioning costs, storage expenses, impairment charges and changes in sales prices upon the disposition of containers. These factors, among others, may reduce their profitability and adversely affect their plans to maintain the container ownership portion of their business. The number of owned intermodal assets in the Intermodal Funds' portfolio will fluctuate over time.

**Surplus Containers/Lack of Storage Space.** The Intermodal Funds' intermodal and maritime shipping investment strategies may depend in part on third-party depot operators to repair and store equipment in port areas throughout the world. Growth in the global container fleet has significantly outpaced growth in depot capacity and even in the current period of historically high utilization, the Intermodal Funds' investments may experience limited depot capacity in certain major port cities. Additionally, the land occupied by depots is increasingly being considered prime real estate, as it is coastal land in or near major cities, and this land may be developed into other uses or there may be increasing restrictions on depot operations by local communities. This trend has already caused depot storage costs to increase and could further increase depots' costs and in some cases force depots to relocate to sites further from the port areas. If these changes affect a large number of depots, or if the market experiences a period of lower container utilization, it could significantly increase the cost of maintaining and storing off-hire containers. Additionally, if depot space is unavailable, the Intermodal Funds' investments may be unable to accept returned containers from lessees, which may cause a breach of lease agreements. The current period of very high container utilization may further add financial stress to third-party depots as they are receiving limited amounts for storing containers. This financial stress could cause depot closures and further exacerbate the risks the companies face from limited container storage space.

### **Rail Funds' Risks**

**Risks of Investments in Rail Cars Generally.** The Rail Funds will acquire interests in the rail cars and related assets. The highly cyclical nature of the competitive rail car industry and restricted credit markets may result in lower revenues during economic downturns. The fluctuating cost of raw materials and components used to manufacture

railcars, which are often only available from a limited number of suppliers, may also adversely affect the Rail Funds' rail car investments.

**The Rail Funds may be Unable to Maintain Railcar Assets on Lease at Satisfactory Lease Rates.** The profitability of the Rail Funds' railcar leasing depends on the Rail Funds' ability to lease railcars at satisfactory lease rates, to re-lease railcars at satisfactory lease rates upon the expiration and non-renewal of existing leases, and to sell railcars in the secondary market as part of the Rail Funds' ordinary course of business. The Rail Funds' ability to accomplish these objectives is dependent upon several factors, including, among others:

- the cost of and demand for leases or ownership of newer or specific-use railcar types;
- the general availability in the market of competing used or new railcars;
- the degree of obsolescence of leased or unleased railcars, including railcars subject to regulatory obsolescence;
- the prevailing market and economic conditions, including the availability of credit, interest rates, and inflation rates;
- the market demand or governmental mandate for refurbishment; and
- the volume and nature of railcar traffic and loadings.

A downturn in the industries in which the Rail Funds' lessees operate and decreased demand for railcars could also increase the Rail Funds' exposure to re-marketing risk because lessees may demand shorter lease terms or newer railcars, requiring the Rail Funds to re-market leased railcars more frequently. Furthermore, the resale market for previously leased railcars has a limited number of potential buyers. The Rail Funds' inability to re-lease or sell leased or unleased railcars in a timely manner on favorable terms could result in lower lease rates, lower lease utilization percentages, and reduced revenues and operating profit.

**IPO May Never Occur.** While the ITE Rail Fund L.P. may, if and when the General Partner determines, in its sole discretion, conduct an IPO and seek the listing of the equity interests of the IPO Entity, there can be no assurance that ITE Rail Fund L.P. or any of its subsidiaries will ever conduct an IPO. Even if an IPO occurs, there is no assurance that all of the assets of ITE Rail Fund L.P. would be included in such IPO, as certain assets may not be suitable for inclusion in an IPO due to regulatory or other reasons. The General Partner has not determined whether or not to pursue an IPO, and it may choose to do so, or to refrain from doing so, in its sole discretion. Even if the General Partner were willing to pursue an IPO, there are a variety of factors that could nevertheless delay or hinder the ability of ITE Rail Fund L.P. to effect an IPO, including, without limitation, the performance of its investments, market acceptance of the structure ITE Rail Fund L.P. may use to effect an IPO, tax considerations and other factors deemed material in the General Partner's sole discretion.

**Future Offerings of Interests May Dilute Existing Equity Holders and May Adversely Affect the Market Price of Equity Interests.** ITE Rail Fund L.P. may attempt to increase its capital resources through an IPO, even if, at the time of an IPO, ITE Rail Fund L.P. has not yet called the full capital commitments from investors. An IPO and any subsequent equity offerings may dilute the holdings of the equity holders of the IPO Entity or reduce the market price of the equity interest of the IPO Entity, or both. Because the IPO Entity's decision to issue equity interests in an IPO or any subsequent offering will depend on market conditions and other factors beyond ITE Rail Fund L.P.'s (or such other IPO Entity's) control, ITE Rail Fund L.P. cannot predict or estimate the amount, timing or nature of any IPO or any subsequent offerings. Thus, in the event of an IPO, investors bear the risk of the IPO Entity's offerings reducing the market price of the equity interests in the IPO Entity and diluting their equity interest in the IPO Entity.

### **Diversified Funds' Risks**

**Diversified Risks.** In addition to the risks described above and associated with the investment programs of the Air Funds, the Rail Funds and Intermodal Funds, the investment program of the Diversified Funds may include risks associated with investments in (i) industrial equipment and infrastructure related to transportation, loading, unloading, and logistics and supply chain; (ii) investments in energy transition, electric vehicles, autonomous vehicles, smart road and transportation technology and related transportation and manufacturing equipment, systems and infrastructure; and (iii) any other transportation assets, industrial assets, and infrastructure assets, equipment, facilities in the real asset, transportation, industrial, and infrastructure space, including opportunistic investments in the aviation and aerospace industry, financing vehicles (including reinsurance companies), as well as any other related assets, platforms, businesses and financial instruments of the foregoing investments described in clauses (i)-(iii) above, including, without limitation, physical assets, operating entities, equity and debt securities, master limited partnerships, corporate securities, debt obligations, including those that provide equity upside, as well as financing vehicles, including reinsurance companies, options, interest rate hedges and other hedging strategies, residuals and other call rights that provide the Diversified Funds with exposure to such assets.

### **Use of Affiliated Funds**

It is expected that the Diversified Funds will access certain investments by investing through other investment funds advised by the Firm that have similar investment objectives as the Diversified Funds, including, but not limited to the Rail Funds or the Intermodal Funds. The Rail Funds and the Intermodal Funds, and any future affiliated fund in which the Diversified Funds may invest, are referred to herein, collectively, as the “Affiliated Funds.” No additional fees or compensation will be paid to the General Partner of the Diversified Funds or the Firm in respect of the Diversified Funds’ investment in any Affiliated Fund. The Diversified Funds will, however, bear their *pro rata* portion of the operating and administrative expenses of any Affiliated Fund in which the Diversified Funds invests.

Affiliated Funds are single legal entities and creditors of an Affiliated Fund may, absent



contrary contractual provisions, enforce claims against all assets of such Affiliated Fund, notwithstanding that the creditors' claims may relate to a single feeder fund into such Affiliated Fund or a single class of shares of such Affiliated Fund. Therefore, in the unlikely event of a deficit in one class of shares in an Affiliated Fund, assets of another class—including the class through which the Diversified Funds may invest—will be available to cover such deficit. Also, if an Affiliated Fund defaults on a credit facility, the Diversified Funds' investment in such Affiliated Fund may be reduced (or lost) in paying off such facility even if the Diversified Funds were not otherwise benefiting from the borrowing from such facility.

- C. The Firm does not recommend primarily a particular type of security.

## **ITEM 9. DISCIPLINARY INFORMATION**

Neither ITE nor any of its management persons have been involved in any legal or disciplinary events that are material to a Client, investor, prospective fund or prospective investor's evaluation of the Firm's advisory business or the integrity of its management.

## ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

- A. Neither ITE nor any of its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither ITE nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.
- C. ITE, the General Partners and their respective affiliates will be subject, and its Clients will be exposed, to a number of actual and potential conflicts of interest. Any such conflict of interest could have a material adverse effect on the Clients and the investors' investments therein. However, the existence of an actual or potential conflict of interest does not mean that it will be acted upon to the detriment of a Client. When a conflict of interest arises, ITE will endeavor to ensure that the conflict is resolved fairly and in an equitable manner that is consistent with its fiduciary duties to its Clients. ITE has in place policies and procedures that it believes are reasonably designed to identify and resolve actual and potential conflicts of interest. Unless the context clearly indicates otherwise, references in this section to conflicts of interest that may apply to ITE should be understood to apply to ITE and its affiliates.

Investors and prospective investors should understand that ITE's, the General Partners' and its Clients' businesses change over time, and ITE, the General Partners and their respective affiliates may be subject, and a Client may be exposed, to new or additional conflicts of interest. There can be no assurance that this Brochure addresses or anticipates every possible current or future conflict of interest that may arise or that is or may be detrimental to a Client or prospective investors. A prospective investor should consult with its own advisers regarding the possible implications of the conflicts of interest described in the relevant Client Offering Documents for its investment.

**Other Activities of ITE and its Affiliates.** Conflicts of interest may arise from the fact that ITE, the General Partner and their respective affiliates may in the future provide investment management services to clients other than its Clients, including, without limitation, other investment funds, separately managed accounts, proprietary accounts and other investment vehicles (collectively, "Other Accounts", and together with the Clients, the "Accounts" and each, an "Account"). A Client will not typically have an interest in any Other Accounts.

Other Accounts may have investment objectives, programs, strategies and positions that are similar to or may conflict with those of any Client, or may compete with or have interests adverse to a Client. Such conflicts could affect the prices and availability of investments in which a Client invests. Even if an Other Account has investment objectives, programs or strategies that are similar to those of a Client, ITE may give advice or take action with respect to the investments held by, and transactions of, the Other Accounts that may differ from the advice given or the timing or nature of any action taken with respect to the investments held by, and transactions of, a Client for a variety of reasons, including, without limitation, differences between the investment strategy, financing terms,

regulatory treatment and tax treatment of the Other Accounts and any Client. As a result, a Client and an Other Account may have substantially different portfolios and investment returns. Conflicts of interest may also arise when ITE makes decisions on behalf of a Client with respect to matters where the interests of ITE or one or more Other Accounts differ from the interests of a Client. ITE will seek to allocate investments among any Client and the Other Accounts in a fair and equitable manner.

**Lack of Exclusivity.** ITE, its affiliates and personnel will devote as much of their time to the activities of a Client as they deem necessary and appropriate. ITE, its affiliates and personnel will not be restricted from forming Other Accounts, from entering into other investment advisory relationships or from engaging in other business activities, even if such activities may be in competition with a Client and/or may involve substantial time and resources of ITE, its affiliates or personnel.

With respect to the Rail Funds, given the relatively small nature of the rail car industry, the Investment Manager has, and may in the future, provide advisory services to companies that are in the rail car industry and may or may not compete with portfolio companies held by a Client. These activities could be viewed as creating a conflict of interest in that the time and effort of ITE, its affiliates and personnel will not be devoted exclusively to the business of a Client but will be allocated between the business of such Client and the management of Other Accounts and businesses.

From time to time, employees of ITE may serve as directors or advisory board members of certain portfolio companies or other entities. In connection with such services, such persons may receive directors' fees or other similar compensation attributable to such employees' services.

**Investments by Senior Management and Key Employees in any Client and Other Accounts.** Subject to applicable regulatory restrictions and ITE's personal trading policy, senior management and key employees of ITE may choose to personally invest, directly and/or indirectly, in any Client and/or the Other Accounts. Such investors may be in possession of information relating to a Client that is not available to other investors and prospective investors. Senior management and key employees are not required to keep any minimum investment in a Client and may invest in Other Accounts. It is expected that, if such investments are made, the size and nature of these investments will change over time without notice to the investors. Investments by senior management and key employees in any Client and/or Other Accounts could incentivize senior management and key employees to increase or decrease the risk profile of a Client.

**Investments by Investment Manager Personnel.** The Code of Ethics of ITE places restrictions on personal trades by employees, including that they disclose their personal investment holdings and transactions to ITE on a periodic basis, and requires that employees' pre-clear certain types of personal investments transactions. Subject to internal compliance policies and approval procedures, partners and employees of ITE may engage, from time to time, in personal trading of investments, including investments in which a Client may invest and/or investments in companies that have a substantial relationship to a Client.

ITE, its affiliates and its employees may give advice or take action for their own accounts that may differ from, conflict with or be adverse to advice given or action taken for any Client. These activities may adversely affect the prices and availability of other investments held by or potentially considered for purchase by a Client.

**Allocations of Investment Opportunities.** ITE's general policy is to allocate investment opportunities to each Client and to any Other Accounts on a fair and equitable basis, to the extent practical and in accordance with such Client's or Other Accounts' applicable investment strategies, over a period of time. ITE's allocation policies and procedures are subject to change without notice to accommodate specific facts and circumstances.

When allocating investment opportunities among a Client and Other Accounts, ITE will take into account several factors, including but not limited to, the following: (i) available capital; (ii) available capacity; (iii) account investment strategies, objective, and time horizons; (iv) Account-imposed investment guidelines/restrictions; (v) avoidance of excessive transaction costs relative to the size of an Account's participation (vi) diversification considerations and other market risk factors; (vii) existing portfolio composition; volatility and leverage considerations; (viii) liquidity considerations at the time of investment and on a going-forward basis; (ix) Target Ratio; (x) need to rebalance positions held in an investment due to capital inflows or withdrawals; (xi) relevant exposure to market trends; (xii) terms, structure and availability of financing; (xiii) diligence and negotiation in respect of an investment; (xiv) need to re-size risk in an Account's portfolio; (xv) legal and regulatory restrictions; and (xvi) tax considerations,

ITE, in its sole discretion, may make non-pro rata allocations among any Client and the Other Accounts based on, among other things, the factors listed above, together with any factors it deems to be relevant.

**Cross Trades.** ITE may determine that it would be in the best interests of a Client to transfer an investment from one Account to another (each such transfer, a "Cross Trade") for a variety of reasons, including, without limitation, tax purposes, liquidity purposes, to rebalance the portfolios of the Accounts, or to reduce transaction costs that may arise in an open market transaction. Please see Item 11.B below for further detail.

**Master-Feeder Structure.** The use of a "master-feeder" structure presents certain conflicts of interest. For example, different tax considerations applicable to a Client and any other feeder funds that invest in a master fund may result in the master fund structuring or disposing of an investment in a manner or at a time that is more advantageous (or disadvantageous) for tax purposes to one feeder fund or its investors. In selecting and structuring investments appropriate for the master fund, the Investment Manager will consider the investment and tax objectives of the feeder funds of the master fund and their direct and indirect beneficial owners as a whole, not the investment, tax or other objectives of any investor or other beneficial owner individually.

**Side Letter Agreements.** A Client, and in certain cases ITE, will have the discretion to waive or modify the application of, or grant special or more favorable rights with respect to, any provision of a Client's Offering Documents to the extent permitted by applicable law. To effect such waivers or modifications or the grant of any special or more favorable

rights, a Client may create additional classes for certain investors that provide for, among other things, (i) greater transparency into a Client's portfolio, (ii) different or more favorable withdrawal rights, such as more frequent withdrawals or shorter withdrawal notice periods, (iii) greater information than may be provided to other Investors, (iv) different fee or incentive compensation terms, (v) more favorable transfer rights and (vi) key-person notifications. Certain such waivers, modifications or grants of special or more favorable rights may also be affected by a Client, and, in certain cases, ITE, through agreements ("Side Letter Agreements"). The General Partner, in its sole discretion, may aggregate the amount of any capital commitments by investors that are clients of, or otherwise managed or advised by, the same advisor for the purposes of determining preferential terms, including, without limitation, preferential fees agreed to in Side Letter Agreements. A Client, and in certain cases, ITE may enter into Side Letter Agreements, including, without limitation Side Letter Agreements with an investor that is a member, partner, affiliate or employee of the General Partner or ITE, a member of the immediate family of such a person, a trust or other entity for the benefit of such a person, or a strategic partner of the General Partner of ITE. Although certain investors may invest in a Client with different material terms, such Client and ITE generally will only offer such terms if they believe other investors of will not be materially disadvantaged.

**ITE Could Have Different Compensation Arrangements with Other Accounts.** ITE could be subject to a conflict of interest because varying compensation arrangements among a Client and Other Accounts could incentivize ITE to manage a Client and such Other Accounts differently.

**Valuation.** A Client's assets and liabilities are valued in accordance with the Firm's Valuation Policy. In making valuation determinations, ITE may be deemed subject to a conflict of interest, especially with respect to illiquid investments, as the valuation of such assets and liabilities affects its compensation and the compensation of the General Partner. There is no guarantee that the value determined with respect to a particular asset or liability by ITE will represent the value that will be realized by a Client on the eventual disposition of the related investment or that would, in fact, be realized upon an immediate disposition of the investment.

**Performance-Based Fees.** Each General Partner may receive Performance-Based Fees in connection with the management of a Client. These Performance-Based Fees may give rise to potential conflicts of interest, including, but not limited to, the following:

*Allocation of Investment Opportunities.* Performance-Based Fees may create an incentive for ITE, an affiliate of a General Partner, to direct the best investment ideas to, or to allocate or sequence trades in favor of, (i) Accounts with performance compensation arrangements over Accounts that are not charged, or from which a General Partner or ITE will not receive (e.g., because the Account has a positive loss recovery account), performance compensation, and (ii) Accounts from which a General Partner or ITE will receive a greater performance compensation over Accounts from which a General Partner or ITE will receive lesser performance compensation.

*Valuation.* Performance-Based Fees may create an incentive for ITE to provide biased valuations, especially with respect to illiquid investments.

*Risk.* Performance-Based Fees may create an incentive for ITE to make investments that are riskier or more speculative than would be the case if a performance-based compensation arrangement were not in effect.

*Timing and Realization of Investments.* Performance-Based Fees may create an incentive for ITE to time investments, and the realization of investments, so as to maximize the Performance-Based Fees rather than the return of a Client.

**Service Providers.** The fund administrator, prime brokers and other Service Providers may provide services to other vehicles with similar investment programs and, accordingly, may have conflicts of interest. In addition, subject to applicable law, any of the Service Providers may deal, as principal or agent, with a Client; provided that such dealings are on normal commercial terms negotiated on an arm's-length basis.

**Transactions with Portfolio Companies.** Principals have, and may in the future, enter into transactions with portfolio companies of a Client. In particular, James Unger owns a building complex that is leased to a portfolio company of the Rail Funds at a market rate. In connection with any such transactions, the Principals, senior management and key employees of ITE may receive compensation and other perquisites that are not shared with a Client or the investors and that do not offset any related Management Fees. Any such compensation or other perquisites will be retained by the Principals and will be in addition to any Management Fee and any Performance-Based Fees.

There can be no assurance that such transactions will benefit a Client's portfolio companies. To the extent practicable, a General Partner will seek to ensure that any such arrangements will contain terms at least as favorable to the portfolio company as are generally obtainable on an arm's-length basis from unrelated third parties. A General Partner may from time to time seek approval from the Advisory Committee, if any, for any such transactions, but it is not required to do so.

**Employees of Portfolio Companies.** Employees of ITE may serve as directors and/or officers of portfolio companies of a Client or may otherwise be employed by portfolio companies of a Client. Accordingly, such employees may have a conflict where their fiduciary duty to the portfolio company may conflict with their fiduciary duty to a Client. In such circumstances, any such employee may act in accordance with his or her fiduciary duty to the portfolio company rather than any fiduciary duty such person may have to a Client.

In addition, certain directors, officers or employees of portfolio companies may (i) be co-investors with a Client or Other Account; (ii) have affiliations with third parties who provide professional or other services to a Client's other portfolio companies, a Client or Other Accounts, or (iii) have personal or familial relationships or affiliations with the principals and employees of ITE.

In instances where ITE, on behalf of a Client, appoints or retains (or influences the appointment or retention of) such directors, officers or employees on behalf of portfolio companies, ITE will make determinations with respect to the qualifications and

appropriateness of such persons in its sole discretion. Potential employees of portfolio companies have included, and may in the future include, individuals with personal and familial relationships with employees of ITE. Given the relationships among the ITE employees and any such personnel, conflicts may arise in connection with any such appointment and ongoing monitoring of those officers and the portfolio companies.

There may be instances where an individual may be suitable for engagement by both ITE and a portfolio company. If the individual is hired by ITE, the costs and expenses associated with such personnel would be borne by ITE, and if the individual is hired by the portfolio company, the costs and expenses associated with such personnel would be borne by the appropriate Client. Accordingly, there will be a conflict for ITE when determining whether to hire an individual for ITE or to recommend such individual for employment by a portfolio company. In addition, there may be circumstances where personnel of ITE become employees of portfolio companies when it is determined by ITE that their skill set would be better utilized by the portfolio company.

From time to time, employees of a portfolio company also may provide assistance and advice to ITE unrelated to the portfolio company.

ITE is not always aware of conflicts arising in connection with employees and members of portfolio companies. Whenever ITE is aware of such conflicts, however, it will use reasonable efforts to ensure that such conflicts are minimized in an appropriate manner to the extent practicable in its good faith discretion.

D. ITE does not recommend or select other investment advisers for its Clients.



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

- A. The Firm has adopted a written Code of Ethics (the "Code"), which describes ITE's fiduciary duties and responsibilities to its Clients, requires that ITE's employees act in the best interests of its Clients to the exclusion of contrary interests, act in good faith and in an ethical manner, mitigate conflicts of interest with any Clients to the extent reasonably possible, and identify and manage conflicts of interest to the extent that they arise. ITE's employees are also required to comply with applicable provisions of the federal securities laws and make prompt reports to ITE or other appropriate party of any actual or suspected violations of such laws by ITE or its employees.

In addition, the Code sets forth policies and procedures with respect to the personal securities trading activities of ITE's employees pursuant to Rule 204A-1 of the Adviser's Act. The Code requires, among other things, employees to report to the Firm all personal trading accounts over which they maintain investment discretion, and to disclose to the Firm all those accounts, if any, that are managed by a third party financial adviser. Employees are required to report all "reportable securities" transactions in such personal trading accounts and provide a summary of securities holdings initially upon hire and on an annual basis thereafter. "Reportable securities" means any security except: (1) direct obligations of the Government of the United States; (2) bankers' acceptances, bank certificates of deposit, commercial paper and high-quality short-term debt instruments, including repurchase agreements; (3) shares issued by money market funds; (4) shares issued by mutual funds, other than funds advised or underwritten by ITE or an affiliate; (5) shares issued by unit investment trusts that are invested exclusively in one or more open-end registered investment companies, none of which are advised or underwritten by ITE or an affiliate, or (6) shares issued by exchange-traded funds that are structured as open-end funds.

The Code also addresses outside activities of employees, conflicts of interest, policies and procedures concerning the prevention of insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and the pre-clearance and reporting of political contributions. Clients, prospective Clients, Fund investors, and prospective Fund investors may obtain access to the Code for review purposes by contacting the Firm.

- B. The Firm may determine that it may be in the best interests of a Client to transfer an investment from one Client account to another (each such transfer, a "Cross Trade") for a variety of reasons, including, without limitation, tax purposes, liquidity purposes, to rebalance the portfolios of a Client's accounts, or to reduce transaction costs that may arise in an open market transaction. If ITE engages in a Cross Trade, ITE will determine that the trade is in the best interests of both of Clients involved and take the necessary protective steps to ensure that the transaction is consistent with the duty to obtain best execution for each of those accounts.

A cross transaction between two Clients may occur as an "internal cross", where ITE instructs the Clients' administrator to book the transaction at the price determined in accordance with ITE's valuation policies and controls. If ITE effects an "internal cross",

ITE will not receive any fee in connection with the completion of the transaction. Cross Trades present an inherent conflict of interest because ITE represents the interest of the buyer and seller in the same transaction. As a result, the Clients involved in such Cross Trades bear the risk that the price obtained from a Cross Trade may be less favorable than if the trade had been executed in the open market. ITE has in place controls to mitigate and address any conflicts that may arise from Cross Trades.

- C. In general, neither ITE nor any of its related persons will invest in the same securities that ITE or its related persons recommend to a Client. Should the Firm consider changing its investment practices, it will adopt policies to address the inherent conflicts that will arise.
- D. In general, neither ITE nor any of its related persons may recommend securities to its Clients, or buy or sell securities for any Client accounts, at or about the same time that ITE or any of its related persons buys or sells the same securities for the Firm's own account or any of its related persons' accounts.

## ITEM 12. BROKERAGE PRACTICES

- A. The Firm is responsible for the purchase and sale of any securities for its Clients and the negotiation of any commissions paid on such transactions. To the extent ITE engages in securities transactions, ITE will select brokers on the basis of best execution, taking into consideration various factors, including commission rates, reliability, financial responsibility, strength of the broker and the ability of the broker to efficiently execute transactions, the broker's facilities, and the broker's provision or payment of the costs of brokerage and research services that are of benefit to Clients.
1. ITE does not currently utilize client commission dollars to purchase research or other brokerage services (i.e., soft dollars). If used at all, the Firm will only use soft dollars to pay for research, products and services that fall within the safe harbor as provided under Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended.
  2. If ITE engages in securities transactions, the Firm will not consider whether ITE or any of ITE's related persons receives client referrals from a broker-dealer or third party when selecting or recommending a broker-dealer.
  3. ITE does not engage in directed brokerage at this time.
- B. To the extent ITE engages in securities transactions, the Firm may aggregate purchase or sale orders on behalf of Clients if, in ITE's judgment, such aggregation is likely to result in an overall economic benefit to Clients based on an evaluation that Clients will benefit by relatively better purchase or sale prices, lower commission expenses or beneficial timing of transactions, or a combination of these and other factors.

### **ITEM 13. REVIEW OF ACCOUNTS**

- A. Each Client's portfolio is monitored and reviewed on a quarterly basis by the relevant valuation committee.
- B. More frequent reviews of a Client's portfolio may occur on a monthly basis, but only at the request of investors.
- C. Audited financial statements will be provided to investors of each Client within 120 days of the end of a Client's fiscal year as required by Rule 206(4)-2 under the Adviser's Act (the "Custody Rule"). In addition, the Firm periodically issues an investor letter to all Clients.

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

- A. The Firm does not receive an economic benefit from anyone, other than its Clients, for providing investment advice or other advisory services to its Clients.
- B. From time to time, ITE uses unaffiliated third-party placement agents for investor referrals.

## **ITEM 15. CUSTODY**

Under the Custody Rule, an adviser has custody if it acts in any capacity that gives the adviser legal ownership of, or access to, client funds or securities. ITE is deemed to have custody of the assets of a Client, because it or one of its affiliates (a General Partner of a Client) either (i) acts as General Partner of a Client, with the authority to dispose of funds and securities in a Client's accounts or (ii) is deemed to have custody because of its ability to withdraw its fees directly from a Client. Therefore, ITE is subject to the Custody Rule.

ITE will adhere to the applicable Custody Rule provisions with respect to Client assets in publicly traded and private securities. The Firm's Chief Financial Officer will be responsible for arranging for annual independent audits of each Client by a major accounting firm within 120 days of a Client's fiscal year end and for obtaining audited financial statements prepared in accordance with GAAP. ITE will arrange for the delivery of such audited financial statements to investors of each Client generally within 120 days of a Client's fiscal year end.

## **ITEM 16. INVESTMENT DISCRETION**

ITE generally accepts discretionary authority to manage assets and securities on behalf of its Clients. In such instances, ITE accepts discretion through a power of attorney or contract provision granted or entered into by a Client, or through the investment management agreement with the applicable Client.

## ITEM 17. VOTING CLIENT SECURITIES

A. In the event that the Firm is presented with an opportunity to vote a proxy, the Firm will generally vote in line with company management. The Firm may take into account all relevant factors, as determined by the Firm in its discretion, including, without limitation:

- the impact on the value of the securities or instruments owned by the relevant Client and the returns on those securities;
- the anticipated associated costs and benefits;
- the continued or increased availability of portfolio information; and
- industry and business practices.

However, under circumstances when the Firm believes that company management's proposal will not maximize value for a Client, the Firm will generally vote against company management. In such cases where the Firm votes against company management will document in a memorandum:

- The reason for such decision;
- The Firm's decision in the vote;
- The result of such vote; and
- Provide, upon investor request, the documentation and rationale for voting such proxy.

In limited circumstances, the Firm may refrain from voting proxies where the Firm decides that voting would be inappropriate, taking into consideration the cost of voting the proxies and the anticipated benefit to a Client.

The Firm will monitor the potential for conflicts of interest with respect to proxy voting as a result of personal relationships, significant client relationships, potential conflicts of interest among Clients or special circumstances that may arise during the conduct of ITE's business. If a conflict of interest is identified, the Firm will not make related proxy voting decisions until it has been determined that the conflict of interest is not material or a method for resolving the conflict of interest has been agreed upon and implemented. The Chief Compliance Officer will determine whether a conflict of interest is material. Materiality determinations will be based on an assessment of the particular facts and circumstances. The Chief Compliance Officer will maintain a written record of all materiality determinations.

In the event the Firm does vote a proxy, Clients may obtain information about such proxies and how they were voted by contacting the Chief Compliance Officer at [legal@itemgmt.com](mailto:legal@itemgmt.com).



## **ITEM 18. FINANCIAL INFORMATION**

- A. The Firm does not require or solicit prepayment of more than \$1,200 in fees per Client, six months or more in advance and therefore has not included a balance sheet.
- B. The Firm does not believe that there are any financial conditions that are reasonably likely to impair its ability to meet contractual commitments to its Clients.
- C. The Firm has never been the subject of a bankruptcy petition.

## **ITEM 19. REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

This Item is not applicable to ITE.