

**Lloyd Harbor Capital Management, LLC**

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**Form ADV Part 2A Brochure**

January 12, 2024

This “**Brochure**” provides information about the qualifications and business practices of Lloyd Harbor Capital Management, LLC. If you have any questions about the contents of this Brochure, please contact the Chief Compliance Officer (“CCO”), Tim Rotolo, at (631) 246-0340 or by email at [compliance@lloydharborcapital.com](mailto:compliance@lloydharborcapital.com). Information in this Brochure has not been approved or verified by the U.S. Securities and Exchange Commission (“**SEC**”) or by any state securities authority.

Lloyd Harbor Capital Management, LLC is registered as an Investment Adviser with the SEC. Registration as an investment adviser does not imply that Lloyd Harbor Capital Management, LLC or any of its principals or employees possesses a particular level of skill or training in the investment advisory business or any other business.

Additional information about Lloyd Harbor Capital Management, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2: Material Changes**

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Lloyd Harbor Capital Management, LLC (hereinafter “**Lloyd Harbor**”, “**we**”, “**us**”, “**our**” or the “**Firm**”) is submitting this other-than-annual amendment which updates Lloyd Harbor’s previous other-than-annual Brochure filed May 11, 2023. Since the filing of the previous Brochure, Item 1 has also been updated to include the contact information and name of the Firm’s new CCO.

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#### **Item 4: Advisory Business**

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Lloyd Harbor Capital Management, LLC is organized as a Delaware limited liability company with a principal place of business in Cold Spring Harbor, New York. Lloyd Harbor's principal owner is Timothy J. Rotolo through his various subsidiaries.

Lloyd Harbor provides discretionary investment advice to the following private pooled investment funds: (i) Sachem Cove Special Opportunities Fund, LP (the "Sachem Cove Fund") and (ii) LHC Special Opportunities Fund I LP (the "LHC Fund" and, together with the Sachem Cove Fund, the "Funds") The securities of which are offered through a private placement memorandum to accredited investors, as defined under the Securities Act of 1933, as amended (the "Securities Act"), and qualified purchasers, as defined under the Investment Company Act of 1940, as amended (the "Investment Company Act"). The Funds are exempt from registration under the Investment Company Act, and their securities are not registered under the Securities Act. Lloyd Harbor does not tailor its advisory services to the individual needs of the underlying investors or limited partners in its Funds (the "Investors") and does not accept Investor-imposed investment restrictions for the Funds. Lloyd Harbor has discretion to manage the investment program of each Fund in its judgement, subject to the investment guidelines and restrictions set forth in the applicable private offering memorandum and investment management agreement between the relevant Fund and Lloyd Harbor. The Funds may enter into side letters and other agreements and arrangements with certain investors in the Funds, which may provide terms and conditions that are more advantageous than those set forth in the applicable private offering memorandum.

Additionally, we provide discretionary investment advice to certain separately managed accounts (the "SMAs" and together with the Funds, the "Clients"). SMAs may offer tailored investment objectives to specific financial instruments and/or be subject to different terms and fees than those of the Funds. Such investment objectives and terms will be negotiated with each SMA client and described in each SMA client's IMA.

Our investment decisions and advice with respect to the Fund is subject to the Fund's investment objectives and guidelines, as set forth in its respective private offering memorandum and/or other offering documents (collectively, "**Offering Documents**").

We do not currently participate in any Wrap Fee Programs.

Currently, we have \$221,659,316 regulatory assets under management on a discretionary basis as of December 31, 2022. We do not have any non-discretionary regulatory assets.

#### **Item 5: Fees and Compensation**

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The fees applicable to the Fund are set forth in detail in the corresponding Offering Documents. A brief summary of such fees is provided below.

##### ***Management Fee***

Lloyd Harbor is paid an investment management fee ("**Management Fee**").

The Management Fee will range from 1% to 2%. per annum based on the net asset value of the Fund.

Regarding SMA clients, each IMA with Lloyd Harbor will define the management fees applicable to such account. Such SMA fees are negotiable and may be charged monthly, quarterly, annually or in arrears. Management fees are typically charged quarterly on the last day of each applicable quarter based on the SMA client's asset value at the end of the period. SMA clients may choose whether Lloyd Harbor directly deducts fees from their account or if fees are billed separately. In all cases, such negotiated terms shall be described in detail in each respective IMA.

Lloyd Harbor, in its sole discretion, may waive or modify the Management Fee for any Investor.

#### ***Other Types of Fees or Expenses***

Lloyd Harbor is authorized to incur and pay in the name and on behalf of the Fund all expenses which they deem necessary or advisable.

The Firm is responsible for and shall pay, or cause to be paid, all of their own ordinary administrative and overhead expenses, including, without limitation, all costs and expenses related to rent, furniture, fixtures, equipment, office supplies, clerical expenses and all salaries, bonuses and benefits paid to, or on behalf of, personnel of the Firm.

The Funds bear all other expenses, which include, without limitation, the following expenses incurred by or allocable to the Funds: (a) organizational and offering expenses; (b) expenses associated with all investments and transactions considered, evaluated and/or consummated by the Funds, including, without limitation, those expenses incurred before the initial closing of the Funds, including, without limitation, expenses associated with sourcing, negotiating, investigating, researching, financing and structuring of investments and potential investments, whether or not consummated, including, without limitation, third-party research, data, analytics, modeling, structuring, pricing, execution and other third-party information systems, software and service fees (including, without limitation, the expenses with respect to data feeds, subscriptions, expert networks, political intelligence providers, and reports); (c) research-related computer hardware and software expenses, including, without limitation, Bloomberg terminals; (d) the Funds' pro rata share of the Firm's order management system, portfolio management system and any other software used for accounting and/or monitoring of the portfolio; (e) expenses associated with holding, financing, monitoring, hedging, maintaining and disposing of all investments of the Funds and all transaction and other costs associated therewith; (f) travel and related expenses associated with investments and potential investments; (g) professional fees associated with investments and potential investments, including, without limitation, consulting, due diligence, accounting, valuation, financial, legal, and other advisory fees and expenses; (h) transaction fees, brokerage commissions, custodial fees, clearing and settlement charges and similar fees and expenses associated with the acquisition, disposition and settling of investments and potential investments; (i) expenses associated with legal and regulatory filings of the Funds (including, without limitation, pursuant to Section 13 and 16 of the Securities and Exchange Act of 1934, as amended (the "**Exchange Act**")) and the Funds' pro rata portion of the expenses associated with preparation of the Firm's Form 13F, Form 13H and Form PF, and any other similar filing in any other U.S. or non-U.S. jurisdiction; (j) administrative, custodial, appraisal, valuation, legal, regulatory, compliance, consulting, advisory and similar fees and expenses associated with the Funds' operations, investments and transactions, including, without limitation, fees and expenses of the Funds' administrator; (k) expenses incurred in connection with responding to requests or inquiries from any U.S. federal, state, local or non-U.S. governmental entity or authority, regulatory body or self-regulatory organization and all

extraordinary expenses; (l) broken-deal, failed transaction, break-up and similar fees, costs and expenses, if any; (m) costs and expenses of leverage or any other borrowings of the Funds, including, without limitation, interest charges and fees; (n) expenses incurred in the collection of monies owed to the Funds, as applicable; (o) auditing and accounting expenses of the Funds, including, without limitation, expenses associated with the preparation of financial statements, tax returns and Schedules K-1 and the fees and expenses of the auditor; (p) any entity level taxes, fees or other governmental charges on the Funds, including, without limitation, any withholding taxes not due to the status or noncompliance of a particular Investor; (q) costs and expenses associated with investor communications and reports and the delivery thereof to investors; (r) the costs of service providers or software to measure or monitor risk metrics, to aggregate positions and/or to provide reporting with respect to risk metrics and/or positions; (s) costs and expenses associated with meetings of the Investors; (t) insurance expenses; including, without limitation, directors' and officers' liability insurance, general partner liability insurance, errors and omissions insurance and other policies, if any; (u) costs and expenses (including, without limitation, entity-level taxes, fees or other governmental charges) associated with the formation, organization and operation of any subsidiary, special purpose vehicle, alternative investment vehicle, holding company, or similar entity formed with respect to investments, credit facilities or other transactions entered into for the benefit of the Funds; (v) wind-up, liquidation, termination and dissolution expenses; (w) costs, fees and expenses related to registration, qualification and/or exemption under any applicable U.S. federal, state, local or non-U.S. laws, rules or regulations, including, without limitation, blue sky fees, Form D, Form 8.3, CFTC filings and notices and other securities and/or investment-related filing expenses; (x) costs related to any transfers of interests in the Funds, unless otherwise charged to or borne by the applicable transferor and/or transferee; (y) expenses incurred in connection with the preparation of any amendment to the Funds' governing documents and/or Offering Documents; (z) expenses incurred in connection with pursuing, defending or participating in any litigation, arbitration, mediation or similar proceeding by the Funds; (aa) any extraordinary expenses (including, without limitation, all litigation-related and indemnification and contribution expenses, including, without limitation, the amount of any judgment or settlement paid in connection therewith); (bb) the Management Fee; and (cc) all other fees, costs, charges and expenses associated with the business, affairs and/or operations of the Funds. See Item 12 for more information regarding our brokerage practices.

In general, each Funds' Investors will bear its proportionate share of the Fund expenses on a pro rata basis with respect to the size of such Investor's capital account(s) or with respect to the relative net asset value of the shares held by such Investor, as applicable.

Notwithstanding the foregoing, the Funds' General Partners and/or the Firm, as applicable, may specially allocate the expenses described herein in any other manner, including by allocating certain expenses to certain (but not all) Fund Investors, if the Funds' General Partners and/or the Firm, as applicable, reasonably determines, in its discretion, that it is more equitable to do so.

To the extent that expenses to be borne by the Funds are paid by the Firm or its affiliates, the Funds will reimburse the Firm or its affiliates for such expenses. We may waive any such reimbursement with respect to any Funds' expenses. Any waiver by us for reimbursement of any Fund expenses shall not serve as a waiver of reimbursement for any future Fund expenses to be paid by us or our affiliates.

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

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We and our affiliates are entitled to a performance-based compensation from investors in the Funds and SMA clients. Performance-based compensation arrangements may create an incentive for us to recommend investments which may be riskier or more speculative than those which we would recommend under a different arrangement. However, this incentive may be tempered somewhat by the fact that losses will reduce the Funds' and SMAs' performance and thus the fees earned. Fund investors are provided with clear disclosure as to how performance-based compensation is charged with respect to a particular Fund and the risks associated with such performance-based compensation prior to making an investment.

Additionally, the Adviser and the respective officers, directors, member or employees will devote such time to the management of the Clients as they deem necessary. However, they are also responsible for advising other accounts which may include their own accounts, and may in the future organize, manage and advise further investment funds or other entities with objectives similar or different from those of the Clients. Conflicts of interest may arise in allocating investment opportunities, management time, services or other functions amongst Clients and such accounts. However, Lloyd Harbor recognizes that it must treat all Clients fairly and must refrain from favouring one Client's interests over another. Lloyd Harbor has adopted policies and procedures designed to address conflicts of interest, including procedures regarding the allocation and aggregation of investment opportunities among Clients and a Code of Ethics, which includes a standard of business conduct and establishes policies and procedures with regard to personal securities transactions of the Adviser's personnel.

## **Item 7: Types of Clients**

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Our Clients are the Funds and SMAs, as described in Item 4 above. The Sachem Cove Fund and the LHC Fund are generally open to, among others, institutions, pension plans, endowments, high net-worth individuals, financially sophisticated individuals, and other sophisticated investors. Each investor in the Funds must meet certain eligibility provisions. Interests in the Funds are generally offered to U.S. Investors who are accredited investors within the meaning of the Securities Act or non-U.S. Investors (as applicable). The Sachem Cove Fund's minimum initial capital contribution amount is \$1,000,000 subject to the discretion of its general partner to accept lesser amounts. The LHC Fund's minimum initial capital contribution amount is subject to the discretion of its general partner.

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

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The descriptions set forth in this Brochure of specific advisory services that we offer to our Clients, and investment strategies pursued and investments made by us on behalf of our Clients, should not be understood to limit in any way our investment activities. We may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that we consider appropriate, subject to our Clients' investment objectives and guidelines as set forth in the Offering Documents. The investment strategies we pursue are speculative and entail substantial risks. Investors should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of our Clients will be achieved.

### ***Investment Objective***

The Clients' long-term investment objective is to generate attractive returns through investing in domestic and foreign publicly traded stocks and options.

There can be no assurance that the Clients' investment objective will be achieved, and certain investment practices can, in certain circumstances, increase the adverse impact to which the Clients' trading portfolio may be subject.

The LHC Fund's investment objective is to invest in certain Contingent Value Rights which provide the holder the right to receive an amount (which may be a fixed amount or determined by a formula, in the event that a specified corporate action, business milestone, or other trigger occurs (or does not occur) which is often subject to an expiration date.

### ***Risk Management***

We will seek to manage risk through monitoring and analysis of the Clients' portfolio. Although we may commit a large portion of the Clients' capital to particular securities and industries, we will also seek, where appropriate, to mitigate risk through portfolio diversification. Additionally, from time to time, at the complete discretion of Lloyd Harbor, positions may be initiated to limit the market risk to the Funds.

The development of an investment strategy is an ongoing process and the Clients' investment strategy and methods may therefore be modified from time to time. There are no material limitations on the investment processes which we may adopt for the Funds. Over time, markets change, and we will seek to capitalize on attractive opportunities wherever they might be. Depending on conditions and trends in securities markets and the economy generally, we may pursue other objectives, or employ other strategies or techniques, that it considers appropriate and in the best interest of the Funds. The above description is merely a summary, and Investors should not assume that any descriptions of the specific activities in which the Funds may engage are intended in any way to limit the types of activities which the Funds may undertake or the allocation of the Funds' capital among such securities and financial instruments. The general partners will notify Investors prior to any major alteration of the Fund's investment policy or strategy.

### ***Risk of Loss Factors***

The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in and investment in the Funds, SMAs, or strategies advised by the Firm. These risk factors include only those risks we believe to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by us.

An investment involves significant risks, and is suitable only for those persons who can bear the economic risk of the loss of their entire investment, who have limited need for liquidity in their investment, and who have met the conditions set forth in the Offering Documents. There can be no assurances that we will achieve our investment objectives. All investments, whether through a Fund or SMA, entail substantial risks associated with investments in publicly-traded stocks and bonds, options, and related instruments, including, without limitation, the risks described below. Each prospective investor should carefully review the Offering Documents, IMA and the documents referred to herein before deciding to invest with the Funds or SMAs.



Investment and Trading Risks. All securities investments risk the loss of capital. Lloyd Harbor believes that the Clients' trading program and Lloyd Harbor's research techniques will moderate this risk through a careful selection of securities and other financial instruments. However, no guarantee or representation is made that the Clients' trading program will be successful or that the Clients will not incur losses. The Funds' trading program may utilize trading techniques including, but not limited to, trading in put and call options and other derivatives, the use of leverage, and short sales, which in practice can, in certain circumstances, increase the adverse impact to which the Funds may be subject. In certain transactions, the Funds may not be "hedged" against market fluctuations or, in reorganization or liquidation situations, may not accurately value the assets of the subject company or the degree of legal and regulatory risk associated with investments in the securities of companies in such situations. This can result in losses, even if the proposed transaction is consummated. Lloyd Harbor will attempt to assess the foregoing risk factors, and others, in determining the extent of the position it will take in the relevant securities and the price it is willing to pay for such securities. However, such risks cannot be eliminated.

Investment Analysis. When assessing investment opportunities, Lloyd Harbor relies on resources that may have limited or incomplete information. In particular, Lloyd Harbor relies on publicly available information and data filed with various government regulators or made directly available to Lloyd Harbor by the issuers of securities or through sources other than the issuers. Although Lloyd Harbor expects that it will evaluate information and data as it deems appropriate and will seek independent corroboration when reasonably available, Lloyd Harbor will not evaluate all publicly available information and data and is not in a position to confirm the completeness, genuineness or accuracy of the information and data that it evaluates. As a result, there can be no assurance that the due diligence exercise carried out by Lloyd Harbor will reveal or highlight all relevant facts that may be necessary or helpful in evaluating investment opportunities. Any failure to have identified the relevant facts may result in an inappropriate investment decision, which may have a material adverse effect on the value of any investment in the Funds.

Concentration of Investments. Subject to any limitations adopted by Lloyd Harbor from time to time, the Funds are not restricted in the amount of its capital that they may commit to any issuer, security, industry sector or geographic region, and at times the Funds may, and expects to, hold a relatively large concentration in a limited number of issuers, securities, industry sectors and/or geographic regions. Losses incurred in connection with those investments could have a material adverse effect on the Funds' overall financial condition. This is because the value of the Funds investment portfolio will be more susceptible to any single occurrence affecting one or more of those issuers, securities, industry sectors or geographic regions than would be the case with a more diversified investment portfolio.

Small (Micro)- to Medium-Capitalization Companies. The Funds may invest in the stocks of companies with small (including certain "micro" companies)- to medium-sized market capitalizations. While Lloyd Harbor believes these investments often provide significant potential for appreciation, those stocks, particularly smaller-capitalization stocks, involve higher risks in some respects than do investments in stocks of larger companies as they (i) tend to rely on more limited product lines, distribution channels, managerial resources and business activities, which make them more susceptible to setbacks or economic downturns, (ii) have more limited financial resources, (iii) tend to have securities that trade less frequently and are thus less liquid, often leading to greater price volatility and a larger spread between their bid and offer prices, and (iv) may also not be covered or followed by as many financial analysts as companies with larger market capitalizations, and therefore, there may be less information

available to Lloyd Harbor with respect to the finances, operations and prospects of such small- to mid- cap companies. The lack of such information could lead to riskier investments by the Funds.

Investments in the Energy and Resource Industries. Lloyd Harbor will invest in the energy and resource industries, specifically in issuers whose businesses focus on exploration and production in the uranium mining and nuclear power sectors. Investments in this industry may be subject to a variety of risks, not all of which can be presently foreseen or quantified. Examples of such risks may include, but are not limited to: (i) the risk that technology employed in an energy project will not be effective or efficient; (ii) uncertainty about the availability or efficacy of energy sales agreements or fuel or other resource supply agreements that may be entered into in connection with a project; (iii) risks that regulations affecting the industry will change in a manner detrimental to the industry; (iv) environmental liability risks related to energy and resource properties and projects; (v) risks of equipment failures, fuel interruptions, loss of sale and supply contracts, decreases or escalations in contract prices, bankruptcy of key customers or suppliers, tort liabilities in excess of insurance coverage, inability to obtain desirable amounts of insurance at economic rates, acts of God and other catastrophes; (vi) uncertainty about the extent, quality and availability of resources and reserves; and (vii) risks that interest rate increases may make project financing more difficult to obtain, or impair the cash flow of projects which are leveraged. The occurrence of any of these events could materially negatively impact positions held by the Funds - ultimately having a material adverse impact on the Funds' performance.

If energy prices suffer a substantial fall from current levels, or from levels prevailing at the time investments are made, the Funds could experience substantial losses. The foregoing could cause asset values to fall, present values of future cash flows to fall, and lenders to curtail or cease lending to the sector.

Certain Regulatory Considerations; Potential Changes in Laws. The energy and resource related industries in which the Funds will invest are subject to regulation by one or more U.S. federal agencies, other sovereign entities and various agencies of the states, localities, and counties in which they operate. New and existing regulations, changing regulatory schemes and the burdens of regulatory compliance all may have a material negative impact on the performance of companies that operate in these industries. The Funds may invest in companies believed to have obtained all material governmental approvals required as of the date thereof to acquire and operate their facilities. In addition, the Funds may be required to obtain the consent or approval of applicable regulatory authorities in order to acquire or hold certain ownership positions in such companies. Lloyd Harbor cannot predict whether new legislation or regulation governing those industries will be enacted by legislative bodies or governmental agencies, nor can it predict what effect such legislation or regulation might have. There can be no assurance that new legislation or regulation, including changes to existing laws and regulations, will not have a material negative impact on the Funds' investment performance. Moreover, additional regulatory approvals, including without limitation, renewals, extensions, transfers, assignments, reissuances or similar actions, may become applicable in the future due to a change in laws and regulations, a change in the companies' customers or for other reasons. There can be no assurance that a company will be able to (i) obtain all required regulatory approvals that it does not currently have or that it may be required to have in the future; (ii) obtain any necessary modifications to existing regulatory approvals; or (iii) maintain required regulatory approvals. A delay in obtaining, or failure to obtain and maintain in full force and effect, any regulatory approvals, or amendments thereto, or delay or failure to satisfy any regulatory conditions or other

applicable requirements could prevent operation of a facility or sales to or from third parties or could result in additional costs to a company.

Regulatory changes in a jurisdiction where an investment is located may make the continued operation of the investment infeasible or economically disadvantageous and any expenditures made to date by such investment may be wholly or partially written off. The locations of the companies may also be subject to government exercise of eminent domain power or similar events. Any of these changes could significantly increase the regulatory-related compliance and other expenses incurred by such companies and could significantly reduce or entirely eliminate any potential revenues generated by one or more of the investments, which could materially and adversely affect returns to the Funds.

In addition to the matters described above, energy and energy generation and related projects are also typically governed by other complex legal agreements. As a result, there can be a higher risk of dispute over interpretation or enforceability of the agreements. It is not uncommon for energy generation and related infrastructure assets to be exposed to a variety of other legal risks including, but not limited to, legal action from special interest groups. Such special interest groups may use legal processes to seek to impede particular projects to which they are opposed.

Further, the regulatory environment for private investment funds is evolving, and changes in the regulation of private investment funds may adversely affect the value of investments held by the Funds and the ability of the Funds to pursue its investment strategies. In addition, securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. Regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The effect of any future regulatory change on the Funds could be substantial and adverse including, for example, increased compliance costs, the prohibition of certain types of trading and/or the inhibition of the Funds' ability to pursue certain of its investment strategies as described herein.

Technology Innovation. The energy and resource industries, and specific sectors in which Lloyd Harbor will invest, routinely develops new technologies to enhance the recovery of reserves, thereby increasing recoverable amounts and/or the improving the cost of recovery. While the Funds' energy and resource-related assets may benefit from such technologies, there can be no assurance that technology innovation will not favor properties of a type not held by the Funds, which would place the Funds in a competitive disadvantage and drive down the value of its assets.

Purchase of Distressed Securities, Etc. The Funds will invest in "distressed investments" – securities, trade claims, litigation claims, warrants and other derivatives, real estate interests, bank debt and other obligations of entities which are experiencing significant financial or business difficulties. Distressed investments may result in significant returns, but involve a substantial degree of risk. The Funds may lose a substantial portion or all of its investment in a distressed investment or may be required to accept cash or securities with a value much less than the Funds' investment. In addition, it frequently may be difficult to obtain information as to the true condition of such issuers. Distressed investments are often significantly less liquid than marketable securities or other assets with readily ascertainable market value. Such investments also may be adversely affected by laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability, litigation risks and a bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims. The market price of such investments is subject to abrupt and erratic market

movements and above average price volatility, and the spread between the bid and asked prices of such instruments may be greater than normally expected. In investing in distressed investments, litigation is sometimes required, which can be time-consuming and expensive, and can lead to unpredicted delays or losses.

Trade claims are purchased on an individual basis from trade creditors of the insolvent entity. As a result, it may be difficult for Lloyd Harbor to identify claimholders and to acquire a sufficient quantity of claims to make an investment worthwhile. Trade claims are subject to individual defenses which may be asserted by the debtor as well as possible deficiencies in the seller's title to the claim. As a result, the Funds will have a greater risk of loss than would apply to a more generic debt instrument and the Funds may be forced to incur substantial legal fees in enforcing its rights.

Any investment that the Funds may make in real estate will be subject to the risks incident to the ownership and operation of residential, commercial and industrial real estate. In addition, the value of any loans and bonds secured by real estate assets may be detrimentally affected if the real estate collateral declines in value. To the extent that the Funds invest, directly or indirectly, in real property, the Funds will be subject to the following risks that may affect the value of such real property: risks associated with both the domestic and international general economic climate, local real estate conditions, community conditions, population trends, local employment conditions, changes in supply of, or demand for, competing properties in an area (as a result, for instance, of over-building), energy and supply shortages, various uninsured or uninsurable risks, terrorism, war, natural disasters, the ability of the Funds and third parties to manage the real properties, changes in applicable laws and government regulations (including tax laws), potential environmental and other legal liabilities, general availability of financing and changes in interest rate levels, changes in interest rates and ordinary market fluctuations in the value of property or equity taken as collateral for any loans made. Certain of these risks cannot be predicted with certainty or controlled by Lloyd Harbor. If the Funds purchases real property or forecloses on loans or bonds secured by real property, the Funds will incur the burdens of ownership of real property, which include the paying of expenses and taxes maintaining such property and any improvements thereon, and ultimately disposing of such property.

The Funds may purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “**Dodd-Frank Act**”) established the Orderly Liquidation Authority (the “**OLA**”), an insolvency regime for large, interconnected financial companies, including broker-dealers, whose failure poses a significant risk to the financial stability of the United States. The Funds may invest in such large, interconnected financial companies and therefore may face losses if such financial companies are put into receivership and then liquidated upon a determination by the U.S. Federal Deposit Insurance Corporation and the board of governors of the U.S. Federal Reserve. If a financial company becomes liquidated by the OLA, the Funds' investments in such a financial company could be adversely affected. Unlike in bankruptcy proceedings, creditors, shareholders and contract counterparties will not have any input into, or advanced notice about, the liquidation or reorganization of the applicable financial company. Many of the

procedural rules for the OLA have not yet been written, and it is unclear how financial companies that become subject to liquidation proceedings would be affected.

Equity Securities. The Funds will invest in equity and equity-related securities. Equity securities fluctuate in value in response to many factors, including the activities, results of operations and financial condition of individual companies, the business market in which individual companies compete, industry market conditions, interest rates and general economic environments. In addition, events such as epidemics, pandemics, political instability, terrorism and natural disasters may be unforeseeable and contribute to market volatility in ways that may adversely affect trades made by the Funds.

PIPE Trading. The Funds may make private investments in equities of publicly-traded companies (“PIPE(s)”). These are typically securities issued pursuant to Regulation D of the Securities Act to “accredited investors” such as the Funds. Generally, the issuer’s common stock is publicly traded on a U.S. securities exchange or listed on the over-the-counter market. However, the securities acquired by the Funds (in the case of equity or preferred securities) or the underlying securities (in the case of warrants, options, or convertible securities) typically are unregistered and subject to re-sale restrictions, but these securities may have registration rights which generally require the issuer to register them for re-sale by the Funds following the date of issue. Certain convertible securities issued in these privately negotiated transactions, however, may provide for registration at a date several months in the future. Often, the issuers of PIPEs will have unstable, fluid, or weak financial positions. As a result, PIPE investments made by the Funds may lose some or all of their value, which could cause losses to the Funds.

PIPE strategies have historically been significantly more likely to be successful during periods of rising equity prices. In such conditions, not only is it easier to liquidate the equity acquired upon conversion of the Funds’ illiquid and restricted securities, but also the equity price may increase from the date of liquidation, increasing the profit of conversion. PIPE investing also involves making capital commitments to issuers without access to traditional capital markets in situations in which the bankruptcy of the issuer could result in a total loss of the investment. Analysis of the financial condition of each issuer is an important component of determining whether to make any such investment.

Fixed Income Securities. The Funds may trade in bonds or other fixed income securities of U.S. and non-U.S. issuers, including, without limitation, bonds, notes and debentures issued by corporations, or debt securities issued or guaranteed by a sovereign government or one of its agencies or instrumentalities. Fixed income securities pay fixed, variable or floating rates of interest. The value of fixed income securities will change in response to fluctuations in interest rates. In addition, the value of certain fixed income securities can fluctuate in response to perceptions of credit worthiness, political stability or soundness of economic policies. Fixed income securities are subject to the risk of the issuer’s inability to meet principal and interest payments on its obligations (i.e., credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (i.e., market risk).

The Funds may trade in fixed-income securities which are not protected by financial covenants or limitations on additional indebtedness. In addition, evaluating credit risk for foreign debt

involves greater uncertainty because credit rating agencies throughout the world have different standards, making comparisons across countries difficult.

Convertible Securities. The market value of convertible securities, as with all fixed income securities, tends to decline as interest rates increase and, conversely, tends to increase as interest rates decline. However, when the market price of the common stock underlying a convertible security exceeds the conversion price, the convertible security tends to reflect the market price of the underlying common stock. As the market price of the underlying common stock declines, the convertible security tends to trade increasingly on a yield basis and thus, may not decline in price to the same extent as the underlying common stock. If a convertible security held by the Funds is called for redemption, the Funds will be required to permit the issuer to redeem the security, convert it into the underlying stock or sell it to a third party. Any of these actions could have an adverse effect on the Funds' ability to achieve its objective.

Short Sales. A short sale involves the sale of a security that the Funds does not own in the expectation of purchasing the same security (or a security exchangeable therefor) at a later date at a lower price. To make delivery to the buyer, the Funds must borrow the security and the Funds is obligated to return the security to the lender, which is accomplished by a later purchase of the security by the Funds. When the Funds make a short sale in the United States, it must leave the proceeds thereof with the broker and it must also deposit with the broker an amount of cash or U.S. government or other securities sufficient under current margin regulations to collateralize its obligation to replace the borrowed securities that have been sold. If short sales are effected on a foreign exchange, such transactions will be governed by local law. A short sale involves the risk of a theoretically unlimited increase in the market price of the security that would result in a theoretically unlimited loss to the Funds. The extent to which the Funds will engage in short sales will depend upon Lloyd Harbor's investment strategy and perception of market direction and the value of individual securities. Lloyd Harbor may engage in short sales on behalf of the Funds as a hedge against potential market declines and/or based on its fundamental analysis of the subject issuers.

Exchange Traded Funds. The Funds may trade in ETFs. ETFs are generally structured to invest in all or a representative sample of the securities that generally replicate the price and yield performance of an underlying market index or sector such as a broad stock market, industry sector, domestic or international equity or fixed income, or U.S. or foreign government bond. ETF shares are traded on stock exchanges and markets at open market prices that generally track the net asset value per share of the ETF. Direct issuances and redemption of ETF shares at the ETF's net asset value per share only occur in large blocks (or creation units) transacted between the ETF and authorized institutional purchasers on an in-kind basis. An exchange traded sector fund may be adversely affected by the performance of that specific sector or group of industries on which it is based. International investments may involve risk of capital loss from unfavorable fluctuations in currency values, differences in GAAP, or economic, political instability in other nations and/or other factors. Although index-based ETFs are designed to provide investment results that generally correspond to the price and yield performance of their respective underlying indices, ETFs may not be able to replicate exactly the performance of the indices because of their expenses and other factors. ETF shares may trade at either a discount or premium to their underlying net asset value. The purchase or sale of ETF shares on the secondary market involves the payment of brokerage commissions, and the purchase and redemption of creation units involves other transaction costs and brokerage commissions. Investors in ETFs also directly bear the ETF's costs associated with its payment

of investment management fees and fees for administrative, custodial or other services and thus the Limited Partners will indirectly incur an additional layer of fees and expenses.

Hedging Transactions. The Funds may utilize financial instruments, both for investment purposes and for risk management purposes in order to (i) protect against possible changes in the market value of the Funds' investment portfolio resulting from fluctuations in the securities markets and changes in interest rates; (ii) protect the Funds' unrealized gains in the value of the Funds' investment portfolio; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in the Funds' portfolio; (v) hedge the interest rate or currency exchange rate on any of the Funds' liabilities or assets; (vi) protect against any increase in the price of any securities the Funds anticipate purchasing at a later date; or (vii) for any other reason that Lloyd Harbor deems appropriate.

The success of the Funds' hedging strategy will depend, in part, upon Lloyd Harbor's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the portfolio investments being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the Funds' hedging strategy will also be subject to Lloyd Harbor's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While the Funds may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Funds than if it had not engaged in such hedging transactions. For a variety of reasons, Lloyd Harbor may not seek to establish a perfect correlation between the hedging instruments utilized and the portfolio holdings being hedged. Such an imperfect correlation may prevent the Funds from achieving the intended hedge or expose the Funds to risk of loss. Lloyd Harbor may not hedge against a particular risk because it does not regard the probability of the risk occurring to be sufficiently high as to justify the cost of the hedge, or because it does not foresee the occurrence of the risk. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the Funds' portfolio holdings.

Leverage. Leverage is the use of borrowed funds for investment. Subject to applicable margin and other limitations, the Funds may use leverage in the course of its trading operations and the amount of leverage which the Funds may have outstanding at any time may be substantial in relation to its capital. Leverage may be obtained by borrowing funds to make trades or by purchasing or entering into derivative instruments that are inherently leveraged, such as swaps, options, futures and forward contracts. To the extent that the Funds purchase securities with borrowed funds, its net assets will tend to increase or decrease at a greater rate than if borrowed funds were not used.

If the interest expense on borrowings were to exceed the net return on the portfolio securities purchased with borrowed funds, the Funds' use of leverage would result in a lower rate of return than if the Funds were not leveraged. If the amount of borrowings which the Funds may have outstanding at any one time is large in relation to its capital, fluctuations in the market value of the Funds' portfolio will have a disproportionately large effect in relation to its capital and the possibilities for profit and the risk of loss will therefore be increased. Any investment gains made with the additional monies borrowed will generally cause the value of the Funds' assets to rise more rapidly than would otherwise be the case. Conversely, if the

investment performance of the additional monies fails to cover their cost to the Funds, the value of the Funds' assets will generally decline faster than would otherwise be the case.

The amount of any borrowing may also be limited by regulations imposed by the Federal Reserve Board or by the availability and cost of credit, as well as due to overall market conditions. If, due to market fluctuations or other reasons, the value of the Funds' assets should fall below required regulatory or counterparty imposed levels, the Funds will be required to reduce its debt by selling securities in its long portfolio. The Funds may also be unable to carry-out its trading program if it is not able to obtain leverage on reasonable terms.

In the case of derivative instruments, because many derivatives are "leveraged," such instruments provide significantly more market exposure than the money paid or deposited when the transaction is entered into and, thus, a relatively small adverse market movement can not only result in the loss of the entire investment, but may also expose the Funds to the possibility of a loss exceeding the original amount invested.

In addition, in transactions involving derivative instruments, counterparties and lenders will likely require the Funds to post collateral to support its obligations. Should the securities and other assets pledged as collateral decline in value, or should brokers increase their maintenance margin requirements (i.e., reduce the percentage of a position that can be financed), the Funds could be subject to a "margin call" pursuant to which it must either deposit additional funds with the broker or suffer mandatory liquidation of the pledged assets to compensate for the decline in value. In the event of a precipitous drop in the value of pledged securities, the Funds might not be able to liquidate assets quickly enough to pay off the margin debt or provide additional collateral and may suffer mandatory liquidation of positions in a declining market at relatively low prices, thereby incurring substantial losses. Furthermore, secured counterparties and lenders will generally have the right to sell, pledge, rehypothecate, assign, use or otherwise dispose of collateral posted by the Funds. This could increase exposure to the risk of a counterparty default since, under such circumstances, the Funds may be unable to recover the posted collateral promptly or may be unable to recover all of the posted collateral.

Loans of Securities; Pledge of Assets. Pursuant to master securities lending agreements or similar agreements, the Funds may lend securities from its portfolio to brokers, dealers and financial institutions and receive collateral in the form of cash and securities in an amount equal to or greater than the current market value of the loaned securities, including any accrued interest or dividend receivable. During the term of such loan, the Funds will not retain all incidents of beneficial ownership as to the loaned portfolio securities, including voting rights. They will, however, generally retain the rights to interest or other distributions, and will have the right to regain record ownership of the loaned securities to exercise such beneficial rights. Such loans will be terminable at any time upon sufficient notice to the other party.

It should be noted that, pursuant to the Funds' account agreement with prime brokers, the prime brokers may, under certain circumstances, lend Fund securities to third parties without notice to the Funds and without providing any collateral to the Funds. If a prime broker makes such loans of securities from the Funds' accounts, the Funds may not be able to vote such securities. In addition, if a prime broker were to become insolvent in the United States, the Funds would not have a claim against any specific assets of such prime broker, but would have



a claim against the pool of assets held for the benefit of such prime broker's customers. Jurisdictions outside of the United States may not provide any similar rights to the Funds.

Herding Risk. The substantial growth of the hedge fund industry, including banks and investment banks trading large, highly-leveraged positions of the same nature as those held by hedge funds, has augmented herding risks. While Lloyd Harbor typically does not invest in companies that are broadly followed by other funds or investment banks, such funds or investment banks may later discover opportunities in the same companies in which the Funds has already invested. Whatever the "fair price" of a security or a relationship, its trading price is sometimes radically altered or influenced by the market activity of traders executing parallel trading programs. This factor may provide surprising and sudden losses at unpredictable times, even after long periods of calm. The negative impact of herding is greatest when markets are under stress and traders holding large leveraged positions (a strategy not pursued by the Funds) seek to liquidate or cover positions simultaneously.

Price Risk. For reasons not necessarily attributable to any of the risks set forth herein (for example, supply/demand imbalances or other market forces), the prices of the securities in which the Funds invest may decline or rise substantially. In particular, purchasing assets at prices that may appear to be "undervalued" is no guarantee that such assets will not be trading at even more "undervalued" levels at the time of valuation or at the time of sale. Similarly, shorting assets at prices that may appear to be "overvalued" is no guarantee that such assets will not be trading at even more "overvalued" levels at the time of valuation or at the time of sale.

Derivatives Generally. Derivative instruments, or "derivatives," include options, swaps, futures, structured securities and other instruments and contracts that are derived from, or the value of which is related to, one or more underlying securities, financial benchmarks, financial assets, currencies or indices. Derivatives allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark, financial asset, currency or index at a fraction of the cost of investing in the underlying asset. The Funds may seek to acquire derivatives for these or other reasons, however, there is no assurance that derivatives that the Funds wishes to acquire will be available at any particular times upon satisfactory terms or at all.

The value of a derivative is frequently difficult to determine and depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading an underlying asset are also applicable to derivatives of such asset. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives are "leveraged," and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement in the underlying asset can not only result in the loss of the entire investment, but may also expose the Funds to the possibility of a loss exceeding the original amount invested. Over-the-counter ("**OTC**") derivatives generally are not assignable except by agreement between the parties concerned, and no party or purchaser has any obligation to permit such assignments. The OTC market for derivatives is relatively illiquid. In the case of OTC derivatives contracts, the Funds are subject to the credit risk of the counterparty.

The Funds may take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the trading objective of the Funds and legally permissible. Special risks may apply to instruments

that are invested in by the Funds in the future that cannot be determined at this time or until such instruments are developed or invested in by the Funds.

The Dodd-Frank Act enables the CFTC and the SEC to enact new regulations on certain OTC derivatives. Under the Dodd-Frank Act and rules promulgated thereunder, certain OTC derivatives contracts are required to be traded on regulated trading platforms and cleared through registered clearing organizations subject to regulation by the SEC and the CFTC. Such contracts are traded more like futures and options contracts and parties to such transactions will trade standardized contracts and will face clearing organizations as contractual counterparties, rather than facing the credit risk of counterparties under individually negotiated bilateral OTC agreements.

In addition, swap dealers and major swap participants (entities that are not swap dealers, but are subject to rules governing dealers due to their levels of activity and exposure) are subject to regulatory oversight and requirements with respect to OTC derivatives, which will include business conduct requirements, such as know-your-customer rules, increased risk disclosure and rules requiring trades to be documented and confirmed within certain timeframes. Derivative contracts, whether cleared or uncleared, will have to be reported to trade data repositories registered with the CFTC and/or the SEC.

While the CFTC has finalized the majority of its required rulemakings under the Dodd-Frank Act, there are still a number of rules that have not been finalized by the SEC. As a result, the effect that the foregoing regulatory changes will have on the price of derivative contracts, liquidity and administrative costs, among other things, remains unclear.

In addition, there is speculation that some or all of the Dodd-Frank Act may be repealed and/or changed. Depending upon such changes, there may be significant differences in the future with respect to the risks associated with derivatives trading. The impact of any such changes is currently unknown, and none of Lloyd Harbor, the applicable general partner or the Funds undertake to update Investors upon such changes or upon finalization of any CFTC or SEC regulations promulgated under the Dodd-Frank Act.

Swaps. The Funds may trade swaps. Swap agreements and options on swap agreements ("**swaptions**") can be individually negotiated and structured to include exposure to a variety of different types of investments, asset classes or market factors. Whether the Funds' use of swap agreements or swaptions will be successful will depend, in part, on Lloyd Harbor's ability to select appropriate transactions for the Funds. Depending on their structure, swap agreements may increase or decrease the holder's exposure to, for example, equity securities, long-term or short-term interest rates, non-U.S. currency values, credit spreads or other factors. Swap agreements can take many different forms and are known by a variety of names. Swap transactions may be highly illiquid and may increase or decrease the volatility of the Funds' portfolio. Moreover, the Funds bear the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty.

The Funds will also bear the risk of loss related to swap agreements, for example, for breaches of such agreements or the failure of the Funds to post or maintain required collateral. It is possible that developments in the swap markets, including potential government regulation,

could adversely affect the Funds' ability to terminate swap transactions or to realize amounts to be received under such transactions.

Interest Rate Risk. Generally, the value of fixed income securities will change inversely with changes in interest rates. As interest rates rise, the market value of fixed income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed income securities tends to increase. This risk will be greater for long-term securities than for short-term securities. The Funds may attempt to minimize the exposure of the portfolios to interest rate changes through the use of interest rate swaps, interest rate futures and/or interest rate options. However, there can be no guarantee that the Funds will be successful in fully mitigating the impact of interest rate changes.

Interest Rate Swaps, Caps, Floors and Collars. The Funds may enter into interest rate swap transactions or purchase or sell interest rate caps, floors or collars in order to obtain the desired exposure to a particular interest rate sector, for the purpose of profiting from interest rate differentials or to protect the value of the Funds' portfolios from interest rate fluctuations. Interest rate swaps involve the exchange by the Funds with another party of their respective commitments to make or receive interest payments (e.g., an exchange of floating rate payments for fixed rate payments). On each payment date under an interest rate swap, the parties net the payments owed by each party, and only the net amount is paid by one party to the other. Swaps may extend over substantial periods of time, and typically call for the making of payments on a periodic basis. The purchase of an interest rate cap entitles the purchaser, to the extent that a specified index exceeds a predetermined interest rate, to receive payments of interest on a notional principal amount from the party selling such interest rate cap. The purchase of an interest rate floor entitles the purchaser, to the extent that a specified index falls below a predetermined interest rate, to receive payments of interest on a notional principal amount from the party selling such interest rate floor. A collar is a combination of a cap and a floor, which preserves a certain return within a predetermined range of values.

Special Situations. The Funds may invest in companies involved in (or the target of) acquisition attempts or tender offers or in companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. In any investment opportunity involving any such type of special situation, there exists the risk that the contemplated transaction either will be unsuccessful, take considerable time or result in a distribution of cash or a new security the value of which will be less than the purchase price to the Funds of the security or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, the Funds may be required to sell its investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which the Funds may invest, there is a potential risk of loss by the Funds of their entire investment in such companies.

Capital Structure Arbitrage. The Funds may invest based on capital structure arbitrage strategies. The success of any such strategies will depend on Lloyd Harbor's ability to identify and exploit inefficiencies in the pricing of credit risk within a company's or sovereign's capital structure. Identification and exploitation of market opportunities involve uncertainty. There can be no assurance that Lloyd Harbor will be able to locate investment opportunities or to correctly exploit price discrepancies. A reduction in the pricing efficiency of the markets in which the Funds will seek to invest will reduce the scope for the Funds' involvement in these

strategies. In the event that the perceived mispricing underlying the Funds' positions fail to materialize, these strategies could be unsuccessful or result in losses.

Securities of Non-U.S. Companies. Investments in securities of non-U.S. issuers (including non-U.S. governments) and securities denominated in, or the prices of which are quoted in, non-U.S. currencies pose, to the extent not hedged, currency exchange risks (including blockage, devaluation and non-exchangeability), as well as a range of other potential risks which could include expropriation, confiscatory taxation, political or social instability, illiquidity, price volatility and market manipulation. In addition, less information may be available regarding securities of non-U.S. issuers, and non-U.S. issuers may not be subject to accounting, auditing and financial reporting standards and requirements comparable to, or as uniform as, those of U.S. issuers. Transaction costs of investing in non-U.S. securities markets are generally higher than in the United States. There is generally less government supervision and regulation of exchanges, brokers and issuers outside the United States than there is in the United States. The Funds might have greater difficulty taking appropriate legal action in non-U.S. courts. Non-U.S. markets also have different clearance and settlement procedures which, in some markets, could at times fail to keep pace with the volume of transactions, thereby creating substantial delays and settlement failures that could adversely affect the Funds' performance.

Investments in Unregistered Securities. The Funds may invest in unregistered securities, including investments in new and early stage companies or companies undergoing operational or financial restructuring, which may involve a high degree of business and financial risk that can result in substantial losses. Because of the possible absence of a liquid trading market for these investments, it may take longer to liquidate these positions than would be the case for publicly traded securities, or it may not be possible to liquidate them at all. Although these securities may be resold in privately negotiated transactions, the prices realized on such sales could be substantially less than those originally paid by the Funds. Further, companies that have securities that are not publicly traded will generally not be subject to public disclosure and other investor protection requirements applicable to companies that have publicly traded securities.

Significant Positions; Shareholder Activism. The Funds may take significant positions in portfolio companies that result in the Funds acquiring (i) more than five percent (5%) of a class of securities of a single issuer which would require the filing of a Schedule 13D or 13G statement with the SEC, or (ii) more than ten percent (10%) of a class of securities of a single issuer (which would impose certain limitations on the Funds' ability to trade in such securities, including the restrictions of Section 16 of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**")).

The Funds may engage in proxy contests, takeover bids, shareholder class actions or other litigation, or other activity which may place the Funds in a high-profile position which is adverse to issuer management and/or other security holders. The Funds may, as a result of such techniques or otherwise, obtain a controlling or other substantial position in any public or private company. The Funds may become subject to regulatory proceedings or other litigation.

At various times, Lloyd Harbor may agree with unrelated third parties to coordinate investments in activist positions. If any such third parties suffer damage to their reputation, the Funds may also incur damage to its reputation as a result of the group association. Lloyd Harbor may agree with such parties not to purchase and/or sell the applicable securities or related securities without the consent of such parties and may agree with such parties to vote

or not to vote such securities in a certain manner. This may result in the Funds being unable to engage in certain transactions when Lloyd Harbor would otherwise deem it desirable. Under U.S. law, the formation of a “group” may result in the Funds’ being deemed to own in excess of ten percent (10%) of an issuer’s securities even when the Funds’ position itself is less than ten percent (10%) thereby resulting in “short- swing” transaction reporting and potential forfeiture obligations.

The Funds’ ability to realize value from certain of its positions may depend upon the ability of Lloyd Harbor to influence the management of a portfolio company to take certain actions, including, for example, a recapitalization, restructuring, spin-off, sale of the business or change in management. If Lloyd Harbor is incorrect in its assessment of the impact such action will have on the value of the portfolio company, or if it is unsuccessful in persuading the portfolio company’s management to take the desired action, the Funds may sustain a losses on their positions.

Litigation Risk. In some cases, the Funds’ trading program may result in the Funds taking an activist position with respect to an issuer. For example, Lloyd Harbor may challenge action sought to be taken by an issuer that Lloyd Harbor believes will have an adverse impact upon the value of a class of such issuer’s securities. In such case, either the issuer itself, or other market participants with positions adverse to that of the Funds, may institute litigation against the Funds challenging its activist conduct. Alternatively, Lloyd Harbor may initiate litigation as a tool to further activist goals, and such litigation may precipitate counterclaims. Litigation, even if successful, is often expensive. Unsuccessful litigation could result in losses to the Funds.

Currency Transactions. The Funds may invest in securities and other instruments denominated or quoted in currencies other than the U.S. Dollar. In connection therewith, Lloyd Harbor may hedge against the resulting currency exposure wherever economically prudent. However, changes in currency exchange rates will affect the value of the Funds’ portfolios and the unrealized appreciation or depreciation of investments. Additionally, such hedging transactions may include a credit component pursuant to which the Funds may be required to grant to its hedging counterparty a security interest in certain of its assets. Accordingly, in such a case, if the Funds default with respect to a currency hedging transaction, then the hedging counterparty could lay claim to an interest in such assets.

Further, the Funds may incur costs in connection with conversions between various currencies. Foreign currency exchange dealers realize a profit based on the difference between the prices at which they are buying and selling various currencies. Thus, a dealer normally will offer to sell currency to the Funds at one rate, while offering a lesser rate of exchange should the Funds desire immediately to resell that currency to the dealer. The Funds will conduct its currency exchange transactions on a spot (i.e., cash) basis at the spot rate prevailing in the currency exchange market. The Funds may also take speculative positions in currencies, which will be subject to the same risks discussed above.

Commodity Trading. The prices of commodities and all derivative instruments, including futures and options prices, are highly volatile. Price movements of commodities, futures and options contracts are influenced by, among other things, changing supply and demand relationships, U.S. and non-U.S. governmental programs and policies, national and international political and economic events, interest rates and governmental monetary and exchange control programs and policies. Moreover, commodity exchanges limit fluctuations in commodity futures contract prices during a single day by regulations referred to as “daily

price fluctuation limits” or “daily limits.” During a single trading day, no trades may be executed at prices beyond the daily limit. Commodity futures prices have occasionally moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Fund from promptly liquidating unfavorable positions and subject it to substantial losses. In addition, the Dodd–Frank Act significantly expands the CFTC’s authority to impose broader aggregate position limits.

Lloyd Harbor has not registered with the CFTC as a CPO or CTA. Therefore, Lloyd Harbor, unlike a registered CPO or CTA, will not be required to deliver a disclosure document, periodic account statements, or an annual report to the Investors. Lloyd Harbor may trade a limited amount of futures contracts for the Funds without so registering in reliance on an exemption from registration under CFTC Regulation 4.13(a)(3).

Call Options. There are risks associated with the sale and purchase of call options. The seller (writer) of a call option which is covered (e.g., the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security less the premium received, and gives up the opportunity for gain on the underlying security above the exercise price of the option. If the seller of the call option owns a call option covering an equivalent number of shares with an exercise price equal to or less than the exercise price of the call written, the position is “fully hedged” if the option owned expires at the same time or later than the option written. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The buyer of a call option assumes the risk of losing its entire investment in the call option.

Put Options. There are risks associated with the sale and purchase of put options. The seller (writer) of a put option which is covered (e.g., the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sales price (in establishing the short position) of the underlying security plus the premium received, and gives up the opportunity for gain on the underlying security below the exercise price of the option. If the seller of the put option owns a put option covering an equivalent number of shares with an exercise price equal to or greater than the exercise price of the put written, the position is “fully hedged” if the option owned expires at the same time or later than the option written. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security 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 securities 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 security, whether the Funds 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 security market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular securities.

Forward Trading. Lloyd Harbor may engage in forward trading on behalf of the Funds. Forward contracts (including forward foreign exchange contracts) and options thereon are not traded on exchanges and are not standardized. Rather banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and “cash” trading is substantially unregulated - there is no limitation on daily price movements and speculative position limits are not applicable. The principals who deal in the forward markets are not

required to continue to make markets in the currencies or commodities that they trade and these markets can experience periods of illiquidity, sometimes of significant duration, which could result in substantial losses to the Funds.

Options on Futures. Trading options on futures involves a high degree of risk. The risks of trading options on futures are similar to the risks of trading securities options, but often involve even greater leverage and risks. In addition, if the purchaser of an option on a futures contract exercises the option, the holder will, in effect, be buying or selling the underlying futures contract, and will then be subject to the same risks as are attendant to futures trading.

Purchasing Securities of Initial Public Offerings. The Funds may purchase securities of companies during their initial public offerings or shortly thereafter. Special risks associated with these securities may include a limited number of shares available for trading, unseasoned trading, lack of investor knowledge of the companies and limited operating histories. These factors may contribute to substantial price volatility for the shares of these companies. The limited number of shares available for trading in some initial public offerings may make it more difficult for the Funds to buy or sell significant amounts of shares without an unfavorable impact on prevailing market prices. In addition, some companies engaged in initial public offerings are involved in relatively new industries or lines of business, which may not be widely understood by investors. Some of these companies may be undercapitalized or regarded as developmental stage companies, without revenues or operating income, or the near-term prospects of achieving them.

No Public Market for CVRs. Because there is no longer a public market for the LHC Fund's Contingent Value Rights ("CVRs") since their delisting, the LHC Fund may have difficulty or be unable to sell its investment when it so desires. In addition, there is no market efficiency or testing in order to determine the correct price for the CVRs at any given point since their delisting. Therefore, the LHC Fund could pay more for CVRs than their intrinsic value, and/or fail to sell them at an appropriate or desirable price.

Long-Term & Illiquid Investment in the Fund. An investment in the LHC Fund is a long-term commitment. Interests in the Fund are highly illiquid and have no public market value. No secondary market for the Interests exists, and no such market will be established or supported by its general partner. Voluntary withdrawals by a limited partner are not permitted. Furthermore, the sale or transfer of interests is subject to approval of the General Partner and other restrictions contained in the LHC Fund's Limited Partnership Agreement. Consequently, limited partners may not be able to liquidate an investment in the event of an emergency or for any other reason. An investment in the Fund is suitable only for persons and entities which have no need for liquidity with respect to their investment.

**It is very important that investors refer to the respective Offering Documents and IMAs for a complete understanding of the material risks involved in relation to the types of securities Lloyd Harbor invests in on behalf of the Clients. The information contained herein is a summary only and is qualified in its entirety by the relevant offering documents and IMAs.**

#### **Item 9: Disciplinary Information**

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To the best of our knowledge, there are no legal or disciplinary events that are material to an Investor's or prospective investor's evaluation of our advisory business or the integrity of our management.

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

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Neither we nor our management persons are registered as broker-dealers, and neither of us has any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer, respectively.

Lloyd Harbor has sponsored the Funds and serves as their investment adviser. Sachem Cove Partners, LLC is the general partner of Sachem Cove Fund, and LHC SOF GP I LLC (collectively, Sachem Cove Partners, LLC and LHC SOF GP I LLC are referred to as the “General Partners”) is the general partner of the LHC Fund. The General Partners are affiliates of Lloyd Harbor and are indirectly controlled by Timothy J. Rotolo. Sachem Cove Partners, LLC is also indirectly controlled by Michael Alkin.

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

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### ***Code of Ethics***

Lloyd Harbor has adopted a “**Code of Ethics**” that establishes the high standard of conduct that we expect of our employees and procedures regarding our employees’ personal trading of securities. Our employees are required to certify their adherence to the terms set forth in the Code of Ethics upon commencement of employment and annually thereafter. Employees also are required to provide quarterly certifications of compliance with certain Code of Ethics provisions.

The foundation of our Code of Ethics is based upon the following underlying fiduciary principles:

- Employees must at all times place the interests of the Funds and Investors first;
- Employees must ensure that all personal securities transactions are conducted consistent with the Code of Ethics’ Employee Personal Investment Policy (described below); and
- Employees should not take inappropriate advantage of their position at the Firm.

Employees are not permitted to maintain personal brokerage accounts for the purpose of trading “**Reportable Securities**” (as defined in the Code of Ethics, and which includes a wide variety of investments such as stocks, bonds, fixed income, options, warrants, futures, and derivatives) except for the purpose of holding or liquidating any such holdings after the commencement of employment. Employees are permitted to liquidate positions held at the time of employment in Reportable Securities (a “**Liquidating Trade**”) subject to pre-clearance by the CCO. Employees are prohibited from participating in Initial Public Offerings (“**IPOs**”). Employees are also prohibited from personally, or on behalf of a Client, purchasing or selling securities that appear on the Firm’s Restricted List.

Employees must obtain pre-approval from the CCO before: (i) engaging in any outside business activities; or (ii) making any private investments.

We will provide a copy of our Code of Ethics to our Investors, or any prospective investor, upon request, to be viewed on the premises.



## Item 12: Brokerage Practices

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Lloyd Harbor Capital Management, LLC is authorized to determine the broker-dealer to be used for executing securities transaction for the Clients. In selecting broker-dealers to execute transactions, we do not need to solicit competitive bids and do not have an obligation to seek the lowest available commission cost. It is not our practice to negotiate “execution only” commission rates; therefore, the Clients may be deemed to be paying for research, brokerage or other services provided by the broker which are included in the commission rate.

We shall also have the authority to select and appoint custodians of the assets of the Funds. The Firm’s authority is limited by its own internal policies and procedures and each Fund’s investment guidelines.

### ***Best Execution***

In selecting an appropriate broker-dealer to effect a client trade, we seek to obtain “**Best Execution**,” meaning generally the execution of a securities transaction for a client in such a manner that a client’s total costs or proceeds in the transaction are most favorable under the circumstances. Accordingly, in seeking Best Execution, we will take into consideration the price of a security offered by the broker-dealer, as well as a broker-dealers’ full range and quality of their services including, among other things, their facilities, reliability and financial responsibility, execution capability, commission rates, responsiveness to us, brokerage and research services provided to us (for example, research ideas, analysis, and investment strategies), special execution and block positioning capabilities, clearance, and settlement and custodial services.

### ***Soft Dollars***

The Firm utilizes “**Soft Dollars**”. Soft Dollar credits, generated by the Clients’ trading activities, would be used to purchase brokerage and research services or products that would otherwise have been Client expenses. We intend to keep any such arrangements within the parameters of the safe harbor of Section 28(e) of the Exchange Act.

Neither Lloyd Harbor nor any related person receives client referrals from any broker-dealer or third party. However, subject to best execution, we may consider, among other things, capital introduction and marketing assistance with respect to Investors in the Funds in selecting or recommending broker-dealers for the Funds.

The provision by a broker of research and other services and property to us creates an incentive for us to select such broker since we would not have to pay for such research and other services and property as opposed to solely seeking the most favorable execution for a client. Any research, services or property provided by a broker may benefit any client and such benefits may not be proportionate to commission dollars related to the provision of such research, services or property.

## Item 13: Review of Accounts

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Our Portfolio Manager and investment professionals continuously monitor and analyze the transactions, positions, and investment levels of the Clients to ensure that they conform with the investment objectives and guidelines that are stated in the Clients’ Offering Documents and IMAs. In these reviews, the Firm pays particular attention to any changes in the

investment's fundamentals, overall risk management and changes in the markets that may affect price levels.

### ***Account Reporting***

We perform various periodic reviews of each Client's portfolio. Such reviews are conducted by our officers.

We will distribute an audited financial report with respect to the previous fiscal year to all Sachem Cove Fund Investors within 120 days of fiscal year end. We may also distribute quarterly unaudited net asset value statements, quarter-end performance reports, and a quarterly investor letter to all Fund Investors.

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

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Other than described above in **Item 12: Brokerage Practices**, we do not receive economic benefits from non-clients for providing investment advice and other advisory services to the Clients. Neither we nor any of our related persons, directly or indirectly, compensate any person who is not a supervised person for client referrals.

### **Item 15: Custody**

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Lloyd Harbor is deemed to have custody over its Funds' accounts because we have the authority to deduct advisory fees from a Fund's accounts or otherwise withdraw funds from a Fund's account. Account statements related to the Funds are sent by qualified custodians to Lloyd Harbor.

We intend to comply with Rule 206(4)-2 of the Advisers Act (i.e., the "Custody Rule") by meeting the conditions of the pooled vehicle annual audit approach. Upon completion of the Sachem Cove Fund's annual audit by an independent auditor that is registered with, and subject to inspection by, the Public Company Accounting Oversight Board (PCAOB), we intend to distribute the Sachem Cove Fund's audited financials to Investors within 120 days of such Fund's fiscal year end.

Lloyd Harbor does not deduct fees from SMA clients. SMA clients maintain custody over their own accounts and are not subject to the Custody Rule requirements. Lloyd Harbor does not take physical possession of Client money or securities. Called capital is directly sent or wired to Lloyd Harbor's qualified custodian(s) for the Funds. The Firm receives monthly statements from its qualified custodian(s) on behalf of the Funds. Further information about Lloyd Harbor's custodians is available in its Form ADV Part 1, Item 7.B.

### **Item 16: Investment Discretion**

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We will have full discretionary investment authority with respect to the Funds, including authority to make decisions with respect to which securities to be bought and sold, as well as the amount and price of those securities. The terms upon which Lloyd Harbor serves as an investment manager are established at the time each Fund and SMA retains Lloyd Harbor as their investment manager. SMA clients sign an IMA and establish account objectives at the commencement of the relationship.

## **Item 17: Voting Client Securities**

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In compliance with Rule 206(4)-6 of the Advisers Act (i.e., the “proxy voting rule”), we have adopted proxy voting policies and procedures. The general policy is to vote all proxy proposals, amendments, consents, or resolutions (collectively, “**Proxies**”) in a prudent and diligent manner that will serve the applicable Client’s best interests and is in line with the Client’s investment objectives.

We may take into account all relevant factors, as determined by us in our 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.

Generally, investors may not direct our vote in a particular solicitation.

Clients may obtain a copy of our Proxy voting policies and our Proxy voting record upon request.

## **Item 18: Financial Information**

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We are not required to include a balance sheet for our most recent fiscal year, are not aware of any financial condition reasonably likely to impair our ability to meet contractual commitments to our Clients and have not been the subject of a bankruptcy petition at any time during the past ten years.