

**INVESTMENT ADVISER BROCHURE**

**PART 2A OF FORM ADV**

**HCI EQUITY MANAGEMENT, L.P.**

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**This Investment Adviser Brochure ("Brochure") provides information about the qualifications and business practices of HCI Equity Management, L.P. ("HCI"). If you have any questions about the contents of this Brochure, please contact Lisa Costello at (202) 371-0150 and/or [lcostello@hciequity.com](mailto:lcostello@hciequity.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state authority.**

HCI is an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). However, such registration does not imply a certain level of skill or training.

Additional information regarding HCI is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## **MATERIAL CHANGES**

HCI filed its most recent Form ADV Part 2 on March 21, 2023. This annual amendment updates the description of the business practices of HCI and its affiliates.

## ADVISORY BUSINESS

HCI Equity Partners is a private investment management firm, including HCI Equity Management, L.P. ("**HCI**"), a registered investment adviser, its affiliated investment advisers and other organizations affiliated with HCI Equity Partners (collectively, "**HCI Equity Partners**").

HCI, a Delaware limited partnership, was formed in November 2010, and commenced operations in May 2011. HCI and its affiliated investment advisers, HC Equity Partners V, L.L.C. ("**HC Equity V**"), HCI Management III, L.P. ("**HCI Management III**"), HCI Management IV, L.P. ("**HCI Management IV**") and HCI Management V, L.P. ("**HCI Management V**"), collectively with HC Equity V, HCI Management III, and HCI Management IV, and together with any future affiliated general partner entities, each a "**General Partner**," collectively the "**General Partners**", and the General Partners together with HCI, each an "**Adviser**," and collectively, the "**Advisers**") were formed to provide "investment supervisory services" to their clients, which consist of investment funds privately offered to qualified investors in the United States and elsewhere.

HC Equity V is the general partner of Thayer Equity Investors V, L.P. ("**Thayer V**"), HCI Management III is the general partner of HCI Equity Partners III, L.P. ("**HCI III**"), HCI Management IV is the general partner of HCI Equity Partners IV, L.P. ("**HCI IV**") and HCI Management V is the general partner of HCI Equity Partners V, L.P. ("**HCI V**" and collectively with Thayer V, HCI III and HCI IV, and together with any future private investment fund sponsored or managed by HCI Equity Partners, each a "**Private Investment Fund**," and collectively, the "**Private Investment Funds**"). Each General Partner has the authority to make all investment decisions for their respective Private Investment Funds and has advisory responsibilities for the operations of the relevant Fund. Pursuant to the relevant Fund Governing Documents (as defined below) and management agreement (and certain assignments and amendments thereof with respect to agreements relating to Thayer V and HCI III), the advisory responsibilities with respect to each of the Private Investment Funds have been assigned, or delegated, to HCI.

HCI Management III and HCI are the general partner and the investment adviser, respectively, of HCI Co-Investors III, L.P. ("**Co-Investors III**" and together with any future co-invest vehicles managed by HCI, each, a "**Co-Invest Fund**," collectively, the "**Co-Invest Funds**," and collectively with the Private Investment Funds, each a "**Fund**," and collectively, the "**Funds**"). The Co-Invest Funds generally are formed for the benefit of certain HCI personnel and other persons associated with HCI to invest in excess investment opportunities (if available) in portfolio companies of a specific Private Investment Fund. Investments by the Co-Invest Funds typically involve investment and disposal of interests in the applicable portfolio company at substantially the same time and on substantially the same terms as the Private Investment Fund making the investment. Each General Partner listed above is subject to the Advisers Act pursuant to HCI's registration in accordance with SEC guidance. This Brochure also describes the business practices of the General Partners, which operate as a single advisory business together with HCI.

The Funds are private equity funds and invest through negotiated transactions in operating entities, generally referred to herein as "portfolio companies." Because the investment advisory services provided to Thayer V and HCI III have remained substantially the same over time, the disclosures contained herein generally are written as though HCI and the other Advisers have always provided investment advisory services to Thayer V and HCI III, even though they only assumed management of them in May 2011.

HCI's investment advisory services to the Funds consist of identifying and evaluating investment opportunities, negotiating the terms of and structuring investments, managing and monitoring investments, partnering with management teams of portfolio companies to execute growth strategies and achieving dispositions for such investments. Although each Fund makes investments predominantly in non-public companies, each Fund is authorized to invest in public companies subject to any limits set forth in the Fund's Governing Documents (as defined below). Where such investments consist of portfolio companies, the senior principals or other personnel of HCI or its affiliates typically serve on such portfolio companies' respective boards of directors or otherwise act to influence control over management of portfolio companies in which the Funds have invested.

HCI's advisory services to the Funds are detailed in the relevant private placement memoranda or other offering documents (each, a "**Memorandum**"), management agreements and limited partnership, limited liability company or other operating agreements of the Funds (each, a "**Partnership Agreement**," and, together with any relevant Memorandum, the "**Governing Documents**") and are further described below under "Methods of Analysis, Investment Strategies and Risk of Loss." Investors in the Funds (generally referred to herein as "investors," "limited partners" or "partners") participate in the overall investment program for the applicable Fund, but in certain circumstances are excused from a particular investment due to legal, regulatory or other agreed-upon circumstances pursuant to the relevant Governing Documents; for the avoidance of doubt, such arrangements generally do not and will not create an adviser-client relationship between HCI and any investor. The Funds or the General Partners have, and expect in the future to, enter into side letters or other similar agreements with certain investors that have the effect of establishing rights under, or altering or supplementing the terms of a Fund's Governing Documents, including economic or other terms, such as provisions relating to the Management Fee (as defined below) and distributions, with respect to such investors.

Additionally, as permitted by the relevant Governing Documents, the Advisers expect to provide (or agree to provide) co-investment opportunities (including the opportunities to participate in co-invest vehicles) to certain current or prospective investors or other persons, including other sponsors, market participants, finders, consultants and other service providers, portfolio company management or personnel, HCI's personnel and/or certain other persons associated with HCI and/or its affiliates (e.g., a vehicle formed by HCI's principals to co-invest alongside a particular Private Investment Fund's transactions). Such co-investments typically involve investment and disposal of interests in the applicable portfolio company at substantially the same time and on substantially the same terms as the Private Investment Fund making the investment. However, for strategic and other reasons, a co-investor or co-invest vehicle (including a co-investing Fund) purchases a portion of an investment from one or more Funds after such Funds have consummated their investment in the portfolio company (also known as a

post-closing sell-down or transfer), which generally will have been funded through Fund investor capital contributions and/or use of a Fund credit facility. Any such purchase from a Fund by a co-investor or co-invest vehicle generally occurs shortly after the Fund's completion of the investment to avoid any changes in valuation of the investment, but in certain instances could be well after the Fund's initial investment. Where appropriate, and in HCI's sole discretion, HCI reserves the right to charge interest on the purchase to the co-investor or co-invest vehicle (or otherwise equitably to adjust the purchase price under certain conditions), and to seek reimbursement to the relevant Fund for related costs. However, to the extent any such amounts are not so charged or reimbursed (including charges or reimbursements required pursuant to applicable law), they generally will be borne by the relevant Fund.

As of December 31, 2023, HCI managed approximately \$1,152,364,820 in client assets on a discretionary basis. HCI's principal owners are Daniel M. Dickinson and Douglas P. McCormick and its general partner is HCI Equity Partners, L.L.C., a Delaware limited liability company. HCI Equity Partners, L.L.C. is managed by a Board of Directors, the members of which are elected by majority vote of the voting members of HCI Equity Partners, LLC. Daniel M. Dickinson and Douglas P. McCormick currently are Directors on the Board of Directors of HCI Equity Partners, LLC.

#### **FEES AND COMPENSATION**

In general, HCI receives an annual management fee (a "**Management Fee**") in connection with advisory services it provides to the Funds. The General Partners of the Funds receive a carried interest. For each Fund, the carried interest distributed to the relevant General Partner is subject to a potential clawback or giveback at the end of the Fund's life if the General Partner has received excess cumulative distributions. For each of HCI III, HCI IV and HCI V, the relevant General Partner for each Fund is also subject to an interim giveback at certain dates over the life of such Fund (as further described in each such Fund's Governing Documents). With respect to Thayer V and HCI III, the Advisers will be responsible for any such givebacks even though they only became entitled to receive carried interest beginning in May 2011, when they assumed management of the Funds.

The Co-Invest Funds do not pay Management Fees or carried interest.

To the extent specified in a Fund's Governing Documents, HCI or other HCI Equity Partners entities or affiliates are permitted to receive additional compensation and other amounts from portfolio companies and prospective portfolio companies (*e.g.*, monitoring fees, transaction fees and break-up fees paid in connection with transactions that are not consummated) in connection with management and other services performed for portfolio companies or prospective portfolio companies of the Funds and such additional compensation (which generally is not reviewed or approved by an independent third party) generally is documented in a management services agreement entered into with the applicable portfolio company. A Fund's Governing Documents generally will provide that such compensation received by HCI or other HCI Equity Partners entities or affiliates, and attributable to the Fund's investment in a portfolio company, will offset a portion of the Management Fees otherwise payable to HCI. The remainder of such compensation will be retained by the Advisers without further offsetting or otherwise reducing any Management Fees. While the Advisers' ability to negotiate and receive

such compensation gives rise to potential conflicts of interest between the Funds and the Advisers, the Advisers believe any such potential conflicts are mitigated by the Management Fee offset mechanism, certain caps to such compensation, and by the Advisers' significant ownership interests in the Private Investment Funds. To the extent that such an offset credit would reduce the Management Fee for a Private Investment Fund for the relevant period below zero, the credit will be carried forward for future application against payable Management Fees for such Private Investment Fund, and if a credit remains upon liquidation a payment, HCI is expected to retain the benefit, except where the Governing Documents require payment to be made to limited partners that have not elected to waive such amount (*e.g.*, where an adverse tax consequence potentially will result).

As a matter of practice, HCI or other HCI Equity Partners entities or affiliates are typically paid fees of the type referred to in the preceding paragraph from, on behalf of or with respect to co-investors or potential co-investors (which could include one or more co-investing Funds or other co-investment vehicles managed by HCI, third parties, portfolio company management or personnel and/or other persons) in an investment or potential investment. The receipt of such fees will not offset or reduce the Management Fee payable by any Fund(s) that have also invested or committed to invest in such investment or potential investment, and, as a result, a Fund will, in most cases, only benefit with respect to the relevant allocable portion on a fully diluted basis of any such fees and not the portion of any fees related to: (i) General Partner or affiliated partner commitments; (ii) co-investors or potential co-investors (which could include one or more co-investing Funds or other co-investment vehicles managed by HCI, service providers, third parties, current or former portfolio company management or personnel, sellers that have rolled their interest or reinvested proceeds into the portfolio company and/or other; and/or (iii) the value of profits, participation or equity interests in or relating to the relevant portfolio company, including interests owned by current or former portfolio company management), which have the potential to be significant. To the extent such fees are paid in kind (including through securities, option grants or other interests), HCI is permitted to calculate the amount of offset based on the then-current value of the in-kind payment, rather than the ultimate value of the interests as of a future date. Unless otherwise agreed with investors, any such fees generally will be payable without further offsetting or reducing any Management Fees during term extensions, even if Management Fees are reduced or eliminated during the extended term, thus reducing the amounts of Management Fees actually offset. Such fees will be offset only to the extent they are paid during the holding period of the relevant Fund, and investors generally will not receive the benefit of fees paid prior to a Fund's acquisition, or following a Fund's disposition, of the relevant investment. In addition, certain personnel, partners or other affiliates of the Advisers are expected to receive compensation for serving as personnel of or providing certain ordinary course services to (or with respect to) certain portfolio companies in which one or more Funds invest or potential portfolio companies, and such compensation generally will not result in additional offsets or reductions to the Management Fee. In certain circumstances, HCI expects that co-investors, lenders, consultants or other parties will negotiate the right to share a portion of such fees from a particular investment, and the above-described offset percentage will be applied after excluding any amounts paid to such persons. For the avoidance of doubt (i) HCI also will not offset compensation received from outside sources, such as residual employee board seats at entities that are no longer Fund portfolio companies and, (ii) neither the Co-Invest Funds nor any other Fund that does not bear Management Fees will receive the benefit of any such reduction or offset with respect to their allocable portion of any such fees and the partners in any

such Fund will not be entitled to receive any payment or credit relating to such fees upon liquidation of such Fund. Each of the foregoing conditions is expected to reduce the amount of such fees otherwise available to be offset against Management Fees, resulting in a potential material benefit to HCI over the life of the relevant Fund, and the existence of such potential benefit creates an incentive for HCI to seek to increase such amounts.

Investors in the Private Investment Funds bear certain fund expenses, as described below. HCI bears certain expenses of the Co-Invest Funds, but the Co-Invest Funds are subject to certain administrative expenses (*e.g.*, audit, tax preparation and certain filing fees) to the extent that income is earned by the Co-Invest Funds to cover such expenses. Investors should review each Fund's Governing Documents for details regarding the fee structures summarized below.

## **Management Fees and Carried Interest**

### HCI V

The Management Fee is a maximum of 2.0% of aggregate investor capital commitments payable semi-annually, partially in arrears and partially in advance (subject to potential reductions due to offsets under certain circumstances), and commenced from the date that was nine months after the Fund's initial closing. Beginning the earlier of (i) the sixth anniversary of the effective date of HCI V, or (ii) the commencement of a Private Investment Fund formed by the General Partner or its principals whose primary investment criteria is substantially similar to the Fund's (as more fully described in the Governing Documents), or (iii) following the occurrence of certain events limiting capital calls for new investments in the Governing Documents, the Management Fee shall be no greater than 2.0% of all invested capital commitments less distributions of capital and any permanent write-downs and write-offs of portfolio investments. The Management Fee generally will be as described in the foregoing sentences and payable until proceeds from all portfolio investments are distributed or until HCI's relationship with the Fund is terminated for other reasons (as described in the Governing Documents); provided that if the Fund has not made a final distribution of assets as of the second anniversary of the expiration of its term, including any extensions, the Management Fee shall be reasonably determined by the Fund's advisory committee (the "**Advisory Committee**") but shall be no higher than it would otherwise be in the absence of any determination by the Fund's Advisory Committee. In addition, the General Partner will receive a carried interest or performance fee from investors in the Fund equal to 20% of all realized or distributed capital appreciation above a threshold level (as more fully described in the Governing Documents).

It is expected that any future Private Investment Funds will have a similar compensation structure.

### HCI IV

Effective July 1, 2023, pursuant to Section 5.2(b)(ii) of the Fund's Partnership Agreement, HCI IV's Management Fee was reduced from 1.2% to 1.0% of invested capital commitments with respect to portfolio investments that have not been disposed of or completely written off, less any permanent write downs of such portfolio investments.



The Management Fee is payable semi-annually, partially in arrears and partially in advance (subject to potential reductions due to offsets under certain circumstances), and commenced at the Fund's initial closing. Pursuant to HCI IV's Governing Documents, HCI IV's initial Management Fee was 2.0% of aggregate investor capital commitments. The Management Fee was reduced by 0.20% each year but will not go below the minimum of 1%. The Management Fee will be payable until proceeds from all portfolio investments are distributed or until HCI's relationship with the Fund is terminated for other reasons (as described in the Governing Documents); provided that if the Fund has not made a final distribution of assets as of the second anniversary of the expiration of its term, including any extensions, the Management Fee shall be reasonably determined by the Fund's Advisory Committee but shall be no higher than it would otherwise be in the absence of any determination by the Advisory Committee. In addition, the General Partner will receive a carried interest or performance fee from investors in the Fund equal to 20% of all realized or distributed capital appreciation above a threshold level (as more fully described in the Governing Documents).

### HCI III

Effective January 1, 2019, pursuant to Section 5.2(b)(ii) of the Fund's Partnership Agreement, HCI III's Management Fee was reduced from 1.2% to 1.0% of invested capital commitments with respect to portfolio investments that have not been disposed of or completely written off, less 50% of any permanent write downs of such portfolio investments. The Management Fee percentage remains at 1.0%.

The Management Fee is payable semi-annually, partially in arrears and partially in advance, (subject to potential reductions due to offsets under certain circumstances) and commenced at the Fund's initial closing. Pursuant to HCI III's Governing Documents, HCI III's initial Management Fee was 2.0% of aggregate investor capital commitments. Effective January 1, 2014, the annual Management Fee was reduced to the Management Fee Stepdown Percentage equal to 2.0% of all invested capital commitments less distributions of capital and a portion of any write downs and write-offs of portfolio investments. The Management Fee has been reduced by 0.20% each year but will not go below the minimum of 1%. The Management Fee will be payable until proceeds from all portfolio investments are distributed or until HCI's relationship with the Fund is terminated for other reasons (as described in the Governing Documents). In addition, the General Partner will receive a carried interest or performance fee from investors in the Fund equal to 20% of all realized or distributed capital appreciation above a threshold level (as more fully described in the Governing Documents). HCI III's initial term expired on September 30, 2020. HCI III's term was extended through September 30, 2022 and subsequently through September 30, 2023 with the approval of HCI III's Advisory Committee. HCI III will continue paying Management Fees during any such term extensions.

### Thayer V

Following the end of the third and final one-year extension of Thayer V's term on December 20, 2015, investors in Thayer V no longer pay a Management Fee pursuant to the relevant Governing Documents. Thayer V is currently in the process of liquidating.

## Other Information

Each Fund generally invests on a long-term basis. Accordingly, investment advisory and other fees are expected to be paid, except as otherwise described in the Governing Documents, during the term of the relevant Fund, and investors generally are not permitted to withdraw or redeem interests in the Fund. As a general matter, Management Fees will be payable during term extensions unless otherwise agreed with investors in the relevant Fund.

As is generally the case in private equity funds, the Governing Documents provide that a Fund's Management Fees will be calculated and charged on a basis that generally is not tied to the Fund's then-current net asset value. As further specified in the Governing Documents, from the effective date of the relevant Fund until a date specified in the Governing Documents (the "**Stepdown Date**"), Management Fees generally will be charged based on a formula tied to the amount of the relevant Fund's aggregate Commitments. Further, after the Stepdown Date, Management Fees generally will be charged and calculated based on a formula tied to the amount of investment contributions (including, where applicable, a Fund borrowing component (e.g., bridge financing contributions)) made by the relevant Fund relating to such Fund's aggregate investment(s) in its portfolio companies that have not been realized or completely written off for U.S. federal income tax purposes (such investments, "**Impaired Value Investments**").

Under the Governing Documents, where the fair market value of a Fund's aggregate investment in a portfolio company exceeds the total amount of investment contributions relating to such investment(s), post-Stepdown Date Management Fees will not be calculated based upon such appreciated value, and will instead continue to be calculated based on the amount of such investment contributions. Conversely, the Governing Documents do not require Management Fees to be reduced or refunded following the occurrence of a writedown, decrease (including a significant decrease) in fair value or other event not constituting a complete realization, such as a reorganization, roll-over investment in connection with a sale or dividend distribution, except in the case where the Fund's the aggregate investment(s) in a portfolio company meet the relevant Impaired Value Investment standard under the Governing Documents. For the avoidance of doubt, after the Stepdown Date, if the fair market value of an Impaired Value Investment is less than the total amount of investment contributions relating to such Impaired Value Investment, then the amount of Management Fees otherwise payable relating to such Impaired Value Investment will be reduced solely based on the ratio of the fair market value of the aggregate remaining investment(s) as compared against the amount of total investment contributions relating to such investment(s) as of the date of the relevant event.

As a result, and as is generally the case for private equity funds, the amount of Management Fees generally will not correspond with fluctuations in the net asset value of individual investments, aggregate investments in a portfolio company or of a Fund, including following the relevant investment period, and will not be reduced in connection with any write downs (whether temporary or permanent), except in the case of Impaired Value Investments. Except where the Governing Documents expressly provide to the contrary, Management Fees will not be reduced (in whole or in part) in the case of partial distributions, in each case in circumstances that do not result in the complete disposition of the relevant Fund's interest therein, and even in cases where the value of the Fund's investment or the Fund's ownership

percentage in such portfolio company has been reduced (including substantially reduced) as a result of such transaction.

In many circumstances, the post-Stepdown Date Management Fee base will include capitalized transaction-specific expenses of unrealized investments. Further, Management Fees generally will not be reimbursed or refunded under the Governing Documents in the event of realizations, dispositions or partial write-downs or write-offs that occur partway through the relevant calculation period.

The Governing Documents set forth the full list of terms under which Management Fees will be reduced, offset or otherwise be limited, and consequently investors should expect to bear the full specified Management Fee rate in the Governing Documents until they are reduced in the circumstances and on the date(s) specified therein.

HCI reserves the right to exempt certain investors in the Private Investment Funds from payment of all or a portion of Management Fees and/or carried interest, including HCI and any other person designated by HCI, such as personnel or owners of the General Partners or their affiliates, "friends and family" of HCI or its personnel, service providers for the General Partners or their affiliates, or other unaffiliated parties (including investors that meet certain qualification requirements based on commitment size or other strategic or relationship factors). For example, HCI serves as investment adviser to Co-Investors III, and does not charge Co-Investors III Management Fees and/or carried interest. Additionally, to the extent permitted by the relevant Governing Documents, HCI reserves the right to permit investors, affiliated with HCI or otherwise, to invest through the relevant General Partner or other vehicles that do not bear Management Fees and/or carried interest. For a discussion of potential conflicts of interest that exist, please see "Participation or Interest in Client Transactions" herein. In general, the Management Fee offsets described above apply only with respect to the capital commitments of fee-paying investors.

The General Partner of a Private Investment Fund generally does not pay a Management Fee or carried interest with respect to its commitment to such Private Investment Fund. Principals or other current or former personnel of HCI generally receive salaries and other compensation derived from, and in certain cases including a portion of, the Management Fee, carried interest or other compensation received by the Advisers.

In addition to the Management Fee and carried interest payable to HCI, each Fund bears certain expenses. As set forth more fully in the relevant Governing Documents, the Funds generally bear all fees, costs, expenses, liabilities and obligations relating to the Fund's (and its subsidiaries' and intermediate entities') activities, investments and business to the extent not reimbursed by a portfolio company or applied to reduce Management Fees, including some or all of the following (which may differ among Funds): (i) costs and expenses attributable to structuring, organizing, acquiring, managing, operating, holding, valuing, winding up, liquidating, dissolving and disposing of a Fund's investments, including follow-on investments (ii) indebtedness of, or guarantees made by or activities in connection with seeking to put in place any such indebtedness of, or guarantees by, the Partnership, the Management Company, the General Partner or any Affiliated Partner on behalf of the Partnership (including any credit facility, letter of credit or similar credit support), including the repayment of principal and

interest with respect thereto; (iii) legal, filing, accounting, auditing, consulting (including consulting and retainer fees paid to Executive Partners (as defined below) or any of its members, consultants performing investment initiatives, consultants for portfolio companies and other similar consultants) (including expenses related to hiring consultants (e.g., headhunter fees, background checks or relocation expenses)), financing, insurance (including directors and officers, errors and omissions liability and other insurance), broker, buy-side and sell-side finders' fees (as well as other similar deal sourcing payments), financing commitment fees, real estate title, appraisal costs, printing, software licensing and similar fees, custodian, depository, transfer, registration, investment banking, research, reporting, interest, travel (including, where appropriate, meal and entertainment expenses and the cost of chartering private aircraft or other private air travel at a cost not in excess of the cost of first class commercial airfare) or ground transportation (including car service), social and entertainment costs, closing dinners, after-hours meals and/or transportation for HCI personnel, and other similar fees and expenses; (iv) expenses incurred in connection with attending training programs, meetings or other events for portfolio companies and their executives and/or their personnel and attending conferences (including related travel, lodging and/or meals) relating to specific investment opportunities and/or the relevant industries or strategies in which a Fund invests; (v) expenses incurred in connection with third party valuations; (vi) expenses associated with the preparation of a Fund's financial statements, tax returns, tax estimates, Schedule K-1s or any other administrative, regulatory or other Fund-related reporting or filing obligations, including any filings required under the Corporate Transparency Act; (vii) expenses of a Fund's Advisory Committee and annual meetings of limited partners and any other meeting with any limited partner(s) including related meals and entertainment expenses; (viii) extraordinary expenses (such as litigation, indemnification, judgments and settlements, if any); (ix) fees and expenses, including break-up or topping fees or other liabilities or obligations, incurred in connection with transactions not consummated (including travel expenses and expenses that may have been allocated to a potential and unaffiliated co-investor had such transaction been consummated) ("**Broken Deal Expenses**"), including a co-investor's or potential co-investor's share of such costs; (x) unreimbursed expenses and unpaid fees of Executive Partners; (xi) any fees or expenses related to the transfer of a limited partner's interest in a Fund (to the extent not borne by the relevant limited partner); (xii) any taxes, fees or other governmental charges levied against a Fund (other than amounts that are reimbursed by, or treated as distributed to, limited partners pursuant to a Fund's Governing Documents); (xiii) personnel travel to Advisory Committee or limited partner meetings; (xiv) software development costs or other technology-related expenses relating to any of the foregoing or otherwise; and (xv) any other fees, costs, expenses, liabilities or obligations approved by a Fund's Advisory Committee. As a general matter, Broken Deal Expenses and other expenses relating to the diligence or evaluation of a prospective investment generally are allocated among investors within a Fund regardless of whether any individual investor negotiated for an elective or automatic contractual right that would have excused them from participating in the investment. The Funds also bear expenses indirectly to the extent a portfolio company (or intermediate entity) pays expenses, including expenses of HCI and/or its affiliates, the relative percentage of these expenses that are borne by various stakeholders (including the relevant Fund, any co-investors, portfolio company management and other persons) is expected to depend upon the level at which such expenses are charted or incurred. Generally included in the expenses permitted to be borne by a Fund are the fees, costs, expenses, liabilities and obligations of legal counsel, consultants and/or other service providers to procure, develop, establish, review, revise,

customize, upgrade and/or negotiate relationships relating to the foregoing items, which generally are expected to be significant. Excluded from Fund expenses are ordinary administrative and overhead expenses of HCI incurred in connection with maintaining and operating its offices (such as compensation of its personnel, rent, utilities and general office expenses). In certain cases, these or similar expenses are expected to be charged to portfolio companies, capitalized into the cost basis of a transaction or, to the extent necessary or desirable for operational, administrative, tax or other reasons, charged at the level of an intermediate holding company between the relevant Fund and the portfolio company. The General Partners reserve the right to recommend that one or more of the Funds' portfolio companies engage certain operating partners, joint venture or similar partners, service providers, portfolio company management or other persons. In exchange for such services, the relevant portfolio company will pay all expense reimbursements, payments or other amounts owed to such persons, a portion of which may be paid in the form of a profits, participation or equity interest granted in the relevant portfolio company or related intermediate entity. While such an arrangement could be more favorable to the relevant Fund if the investment does not increase in value, in the event of appreciation in the relevant investment any such profits interest generally would have a dilutive impact on the Fund's investment, as well as the potential to result in economic gains to the recipient greater than the original amount of compensation, which in either case could be substantial. Each Fund also generally will bear the costs of implementing, reporting (as applicable), monitoring and complying with investment guidelines and directives relating to the Fund's strategy, including in side letters relating thereto, and (where applicable) environmental, social, governance and other standards to which the relevant General Partner has committed in making investments on behalf of the Fund. Additionally, subject to the Governing Documents, a Fund typically will bear certain unreimbursed expenses of portfolio companies and intermediate holding vehicles through which the Fund invests. To the extent brokerage fees are incurred, they will be incurred in accordance with the general practices set forth in "Brokerage Practices." The Co-Invest Funds also bear certain administrative expenses (e.g., audit, tax preparation and certain filing fees). Any such expenses are allocated on a case-by-case basis as further described in such Co-Invest Fund's Governing Documents. HCI reserves the right to advance amounts related to the foregoing and receive reimbursement from the Fund(s) to which such expenses relate.

In certain circumstances, one Fund is expected to pay an expense or obligation common to multiple Funds and/or co-investors (including, without limitation, legal expenses for a transaction in which all such Funds and/or co-investors participate, or other fees or expenses in connection with services the benefit of which are received by other Funds and/or co-investors over time), and be reimbursed by the other Funds for their share of such expenses or obligations, without interest. To the extent the paying Fund makes use of a credit facility to pay such expense, it generally will not be reimbursed separately by other Funds for the costs of establishing, negotiating or maintaining the facility as a whole.

Additionally, as further described herein and in the relevant Governing Documents it is HCI's practice to employ, use, retain or recommend certain third party advisors and other specialists, including, without limitation, entities formed for the benefit of such persons and/or to facilitate the provision of their services and those third-party advisors described in the Governing Documents as "Executive Partners" (collectively, "**Consultants**"), to provide services to (or with respect to) one or more Funds or certain current or prospective portfolio companies in which one or more Funds invest. Consultants generally provide services in relation to the identification,

acquisition, holding, integration, management, improvement and disposition of portfolio companies, including operational aspects of such companies. In certain circumstances, these services also include serving in management, board or policy-making positions for portfolio companies. Consultants are expected to receive compensation, including, but not limited to salary, professional service fees, cash fees, retainers, discretionary bonuses (whether or not based on pre-determined milestones), transaction fees, a profits, participation or equity interest in a portfolio company or holding company, incentive equity and stock awards, profits or equity interests in one or more Funds or General Partners, remuneration from HCI and/or its Funds or affiliates, guaranteed minimums or other compensation, the amount of which typically is determined according to one or more methods, including the value of the time (including an allocation for overhead and other fixed costs) of such Consultants, a percentage of the value of the portfolio company, the invested capital exposed to such portfolio company, amounts believed to be charged by other providers for comparable services and/or a percentage of cash flows from such portfolio company. To the extent that Consultants are paid retainers or guaranteed minimum compensation amounts, there is the possibility that certain portfolio companies or Funds will bear a greater share of such compensation due to the utilization of the Consultant's services at a time when fewer portfolio companies or Funds make use of such Consultants. Under many of these arrangements, including where such persons are paid a flat fee, there can be no assurance that the amount of compensation paid in a particular year will be proportional to the amount of hours worked or the amount or written work product generated by the Consultants. Compensation in the form of profits or equity interests in a portfolio company or intermediate holding company generally has a dilutive impact on the relevant Fund's investment and has the potential to result in economic effects greater than the original amount of compensation, and the relevant Fund typically will bear the costs of all Consultant compensation as well as fees, costs and expenses of structuring Consultant arrangements. Consultants also generally will be reimbursed for certain travel and other costs in connection with their services. No such amounts will offset or reduce the Management Fee. The use of such persons subjects the Advisers to potential conflicts of interest, as discussed under "Conflicts of Interest," below.

In certain circumstances, HCI or the General Partners are expected to permit certain investors to co-invest in portfolio companies alongside one or more Funds, subject to HCI's related policies and practices and the relevant Governing Documents and/or side letters. Where a co-invest vehicle is formed, such entity generally will bear expenses related to its formation and operation, many of which are similar in nature to those borne by the Funds. In the event that a transaction in which a co-investment was planned, including a transaction for which a co-investment was believed necessary in order to consummate such transaction or would otherwise be beneficial, in the judgment of the relevant General Partner, ultimately is not consummated, all Broken Deal Expenses relating to such proposed transaction will be borne by the Fund(s), and not by any potential co-investors, that were to have participated in such transaction. To the extent that such co-investors have already executed definitive documentation to invest in such transaction, such co-investor is expected to bear its *pro rata* share of such Broken Deal Expenses. To the extent the Fund makes use of a credit facility to invest in a portfolio company or pay related expenses, it generally will not be reimbursed separately by co-investors for the costs of establishing, negotiating or maintaining the facility as a whole.

## **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As described under "Fees and Compensation," the Advisers receive a carried interest allocation on certain realized profits in Thayer V, HCI III, HCI IV and HCI V. The Co-Invest Funds are not charged a performance-based fee. While this practice could present a conflict of interest, the Advisers do not believe this arrangement poses a conflict of interest in practice because the Co-Invest Funds co-invest alongside the Funds only to the extent there is an excess investment opportunity that can be allocated to the Co-Invest Funds in accordance with the relevant Governing Documents and the Advisers' investment allocation policy. Additionally, to the extent that HCI has Funds with varying carried interest terms (including amount, timing, waterfall conditions or other terms) and/or HCI personnel are assigned varying percentages of carried interest from the Funds, HCI and such personnel are subject to potential conflicts of interest to the extent that they are involved in identifying investment opportunities as appropriate for Funds from which they are entitled to receive a higher carried interest percentage.

HCI seeks to address the potential for conflicts of interest in these matters with allocation procedures that provide that transactions and investment opportunities will be allocated to the Funds in accordance with each Fund's investment guidelines and Governing Documents, as well as other factors that do not include the amount of performance-based compensation received by HCI or any personnel.

The existence of performance-based compensation has the potential to create an incentive for the Advisers to operate the relevant Fund in a riskier, more speculative or other manner that is less favorable to investors than they would otherwise make in the absence of such arrangement, although HCI generally considers performance-based compensation to better align its interests with those of its investors, particularly in instances where the Governing Documents include terms requiring clawback or giveback of performance-based compensation amounts at the end of the relevant Fund's life or at certain interim intervals.

## **TYPES OF CLIENTS**

The Advisers provide investment advice solely to their Fund clients, and references throughout this Brochure to "clients" and to HCI's related duties to and practices on behalf of its clients and/or investors should be construed accordingly. The Funds generally include investment partnerships or other investment entities formed under U.S. or non-U.S. laws and operated as exempt investment pools under the Investment Company Act of 1940, as amended. The investors participating in the Funds generally include individuals, banks or thrift institutions, other investment entities, university endowments, sovereign wealth funds, family offices, pension and profit-sharing plans, trusts, estates or charitable organizations or other corporations or business entities and often include, directly or indirectly, principals or other personnel of the Advisers and their affiliates and members of their families, Executive Partners and other Consultants, and/or other service providers retained by the Advisers and/or the Funds, as well as executives of portfolio companies.

The relevant General Partner also generally is permitted to establish Funds that are alternative investment vehicles in order to permit certain investors to participate in one or more particular investment opportunities in a manner desirable for tax, regulatory or other reasons.

Alternative investment vehicle sponsors generally have limited discretion to invest the assets of these vehicles independent of limitations or other procedures set forth in the organizational documents of such vehicles and the Governing Documents of the related Fund.

Thayer V generally had minimum investments of \$10 million, HCI III, HCI IV and HCI V generally had a minimum investment of \$5 million, in each case, which could be waived by its General Partner. The Co-Invest Funds' minimum investment amounts are determined on a case-by-case basis in accordance with the Advisers' investment allocation policy. Thayer V, HCI III, HCI IV and HCI V interests are offered and sold solely to accredited investors and qualified purchasers (or qualified knowledgeable HCI Equity Partners personnel).

## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **General**

Each General Partner has selected HCI to provide day-to-day investment advisory services to the Funds, under the supervision of the applicable General Partner. The Advisers share common owners and personnel.

The investment strategy of the Advisers is to seek to increase the value of, and to find desirable exit opportunities for, the investments of the Funds. This strategy may involve the use of information generated by individuals or entities not affiliated with the Advisers. Sources of such information include, but are not limited to, research provided by institutions and the brokerage community, internally and externally generated analysis of potential opportunities, specialized consultants, industry experts, industry and trade publications, as well as direct contact with management of potential portfolio companies and related due diligence.

The Advisers focus on investing in industrial growth companies in the lower middle market. The Advisers expect to focus on making investments in industries in which they have management relationships and substantial operating experience. The Advisers believe that lower middle market companies are attractive investment opportunities because they generally have potential for organic and acquisition-driven growth, opportunities for improving operating performance and limited access to public and private equity or debt. While the Advisers focus on lower middle market companies, they reserve the right to invest in companies that have enterprise values outside of that range.

With respect to HCI V, the Advisers generally focus on making investments in lower middle market companies (with revenue ranges between \$20 and \$200 million and EBITDA between \$5 and \$20 million) in the industrial products and services industry.

HCI III's, HCI IV's and Thayer V's investment periods have ended so the Advisers will primarily focus on managing HCI III's, HCI IV's and Thayer V's existing portfolio companies and completing the liquidation of Thayer V. The investments in HCI III, HCI IV and Thayer V consist of companies in the industrial products and services sectors.

The Advisers generally follow an investment process which seeks to: (i) generate a continuous flow of quality, proprietary deal leads; (ii) subject potential transactions to a multi-stage screening process with certain hurdles at each stage; (iii) institute the appropriate controls



and monitoring mechanisms to facilitate the ability of the Advisers' professionals to add value to portfolio companies; and (iv) maximize the value of investments upon exit.

There can be no assurance that the Advisers will achieve the investment objectives of any Fund and a loss of investment is possible.

## **Risks of Investment**

Each Fund and its investors bear the risk of loss that the Advisers' investment strategy entails. Investors should review each Fund's Memorandum for information regarding risks specific to each Fund. In general, the risks involved with the Advisers' investment strategy and an investment in each Fund include, but are not limited to:

*Business Risks.* A Fund's investment portfolio is expected to consist primarily of securities issued by privately held companies, and operating results in a specified period will be difficult to predict. Such investments involve a high degree of business and financial risk that can result in substantial losses.

*Future and Past Performance.* The performance of the principals' prior investments is not necessarily indicative of a Fund's future results. While the General Partners intends for the Funds to make investments that have estimated returns commensurate with the risks undertaken, there can be no assurances that any targeted internal rate of return will be achieved. On any given investment, loss of principal is possible.

*Investment in Junior Securities.* The securities in which a Fund will invest may be among the most junior in a portfolio company's capital structure and, thus, subject to the greatest risk of loss. Generally, there will be no collateral to protect an investment once made.

*Concentration of Investments.* Each Fund will participate in a limited number of investments and may seek to make several investments in one industry or one industry segment or within a short period of time. As a result, a Fund's investment portfolio could become highly concentrated, and the performance of a single investment or a single industry segment may materially affect its aggregate returns. Furthermore, to the extent that the capital raised is less than the target amount, a Fund may invest in fewer portfolio companies and thus be less diversified.

*Lack of Sufficient Investment Opportunities.* It is possible that a Fund will never be fully invested if enough sufficiently attractive investments are not identified. The business of identifying, structuring and completing private equity transactions is highly competitive and involves a high degree of uncertainty. However, regardless of the extent to which commitments of the limited partners are invested (or drawn down to be invested), the limited partners will be required to bear annual Management Fees through such Fund during the Fund's investment period based upon the entire amount of the limited partners' commitments to such Fund, and other expenses as set forth in the relevant Governing Documents.

*Dynamic Investment Strategy.* While each General Partner generally intends to seek attractive returns for the Funds through the investment strategy and methods described herein, the relevant General Partner is authorized to pursue additional investment strategies and/or

modify or depart from its initial investment strategy, investment process or investment techniques to the extent it determines such modification or departure to be appropriate and consistent with the relevant Governing Documents. A General Partner is authorized to pursue investments outside of the industries and sectors in which HCI has previously made investments or has internal operational experience.

*Growth Equity Transactions.* A Fund may make growth-equity investments. While growth-equity investments offer the opportunity for significant capital gains, such investments generally involve a higher degree of business and financial risk that can result in substantial or total loss. Growth-equity portfolio companies may operate at a loss or with substantial variations in operating results from period to period, and many will need substantial additional capital to support additional research and development activities or expansion, to achieve or maintain a competitive position, and/or to expand or develop management resources. Growth-equity portfolio companies may face intense competition, including from companies with greater financial resources, better brand recognition, more extensive development, marketing and service capabilities and a larger number of qualified managerial and technical personnel.

*Impact of Government Regulation and Reform.* Certain industry segments in which a Fund intends to invest are (or may become) (i) highly regulated at both the federal and state levels in the United States and internationally and (ii) subject to frequent regulatory change. While each Fund intends to invest in companies that seek to comply with applicable laws and regulations, the laws and regulations relating to certain industries are complex, may be ambiguous or may lack clear judicial or regulatory interpretive guidance. An adverse review or determination by any applicable judicial or regulatory authority of any such law or regulation, or an adverse change in applicable regulatory requirements or reimbursement programs, could have a material adverse effect on the operations and/or financial performance of the companies in which a Fund invests.

Additionally, the SEC has proposed and enacted significant rules that will impact the business of HCI and the Funds. In particular, the SEC has adopted a number of new rules that impose significant changes on private fund advisers and their management of private funds, and the SEC is expected to propose and/or adopt additional rules in the future. Such current and future rulemaking is expected to materially impact HCI and its affiliates, the Funds and/or their investments. In addition, the Funds are expected to bear significant increased costs as a result of such rules, including costs related to investor reporting and disclosures. Significant time and resources are expected to be required to comply with the new regulations, which potentially will detract from the time and resources dedicated to the Funds. In addition, following the applicable compliance date, such regulations will require the General Partners to disclose to prospective investors and/or limited partners certain preferential terms negotiated by limited partners in connection with their investment in a Fund, which could result in the relevant General Partner being less willing to agree to any such preferential terms with any potential investor. Certain rules are or may become subject to legal challenge from private fund industry groups and others, and to the extent such legal challenges are successful, investors will not be afforded some or all of the protections provided by these rules.

*Environmental, Social and Governance ("ESG") Matters.* HCI maintains an ESG policy and seeks to integrate certain ESG factors into its investment process in accordance with its

policy and subject to its fiduciary duty and any applicable legal, regulatory or contractual requirements. Applying ESG factors to investment decisions is subjective by nature, and HCI expects to be subject to competing demands from different investors and stakeholder groups with divergent views on ESG (including the role of ESG factors in the investment process). There is no guarantee that the criteria utilized by HCI, or any judgment exercised by HCI, will reflect the beliefs, values, internal policies or preferred practices of any particular investor or other asset manager or reflect market trends. In addition, HCI's ESG policy and practices are expected to evolve over time. Although HCI views the integration of ESG factors to be an opportunity to potentially enhance or protect the performance of its investments over the long-term, HCI cannot guarantee that its ESG program will positively impact the performance of any individual investment or Fund. For avoidance of doubt, however, HCI does not expect to subordinate a Fund's investment returns or increase a Fund's investment risks as a result of (or in connection with) the consideration of any ESG factors.

The materiality of ESG factors depends on many factors, including the relevant industry, location, asset class, and investment strategy. ESG factors, issues, and considerations do not apply in every instance and will vary by Fund and investment. In addition, in evaluating an investment, HCI expects to depend upon information and data provided by a number of sources, including the relevant investments and/or various reporting sources which could be incomplete, inaccurate or unavailable, and which could cause HCI to incorrectly assess a company's ESG practices and/or related risks and opportunities. HCI does not intend independently to verify all ESG information reported by investments or third parties.

Further, ESG practices are evolving rapidly and there are different principles, frameworks, methodologies, and tracking tools being implemented by other asset managers, and HCI's adoption and adherence to various such principles, frameworks, methodologies and tools is expected to vary over time. There is also a growing regulatory interest across jurisdictions in improving transparency regarding how asset managers identify and manage financially material ESG risks, as well as how they define and measure ESG performance. At the same time, anti-ESG sentiment has also gained momentum across the U.S., with several states and Congress having proposed or enacted "anti-ESG" policies, legislation, or initiatives or issued related legal opinions. HCI and its ESG policies could become subject to additional regulation, regulatory scrutiny, penalties or enforcement in the future, and HCI cannot guarantee that its current approach, including the ESG policy and associated ESG practices, will meet future regulatory requirements, reporting frameworks or best practices, increasing the risk of related enforcement. Compliance with new requirements is expected to lead to increased management burdens and costs.

*Illiquidity; Lack of Current Distributions.* An investment in a Fund should be viewed as an illiquid investment. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before gains on successful investments are realized. The return of capital and the realization of gains, if any, generally will occur only upon the partial or complete disposition of an investment. While an investment may be sold at any time, it is generally expected that this will not occur for a number of years after the initial investment. Before such time, there may be no current return on the investment. Furthermore, the expenses of operating a Fund (including any Management Fee payable to the General Partners) may exceed

its income, thereby requiring that the difference be paid from the Fund's capital, including unfunded commitments.

*Leveraged Investments.* A Fund is permitted to make use of leverage by incurring or having a portfolio company or intermediate entity incur debt to finance all or a portion of certain investments, whether on a temporary or long-term basis. Leverage generally magnifies both such Fund's opportunities for gain and its risk of loss from a particular investment. The cost and availability of leverage is highly dependent on the state of the broader credit markets (and such credit markets may be impacted by regulatory restrictions and guidelines), which state is difficult to accurately forecast, and at times it may be difficult to obtain or maintain the desired degree of leverage. Leverage often imposes restrictive financial and operating covenants on a company, in addition to the burden of debt service, and potentially will constrain its ability to operate its business as desired and/or finance future operations and capital needs. The leveraged capital structure of portfolio companies will increase the exposure of a Fund's investments to any deterioration in a company's condition or industry, competitive pressures, an adverse economic environment or rising interest rates and could accelerate and magnify declines in the value of such Fund's investments in the leveraged portfolio companies in a down market. These risks generally are expected to increase as interest rates rise, including in circumstances where a portfolio company's creditworthiness is such that it must borrow at higher interest rates than are available to the relevant Fund. In the event any portfolio company cannot generate adequate cash flow to meet its debt service, a Fund may suffer a partial or total loss of capital invested in the portfolio company, which could adversely affect the returns of such Fund. Furthermore, should the credit markets be limited or costly at the time a Fund determines that it is desirable to sell all or a part of a portfolio company, the Fund may not achieve an exit multiple or enterprise valuation consistent with its forecasts. Moreover, the companies in which a Fund invests generally will not be rated by a credit rating agency. Except where otherwise required by the relevant Governing Documents, a Fund will not be obligated to borrow on behalf of a portfolio company, even in circumstances where the Fund's creditworthiness would permit borrowing at a lower rate than is available to the portfolio company.

A Fund is also permitted to borrow money or guaranty indebtedness (such as a guaranty of a portfolio company's debt, a letter of credit or other forms of promise to provide funding) or otherwise be liable therefor, and in such situations, it is not expected that such Fund would be compensated for providing such guarantee or exposure to such liability. The use of leverage by a Fund generally also will result in fees, interest expense and other costs to such Fund that may not be covered by distributions made to such Fund or appreciation of its investments. While Fund-level borrowings generally will be subject to limitations set forth in the Governing Documents and interim in nature, asset-level leverage generally will not be subject to any limitations, including with respect to the amount of time such leverage may remain outstanding.

A Fund generally is permitted to incur leverage on a joint, several, joint and several or cross-collateralized basis with one or more other Funds and entities managed by HCI or any of its affiliates, including through Fund subsidiaries and other intermediate entities, and may have a right of contribution, subrogation or reimbursement from or against such entities. It is also possible that certain co-investors (including management, any roll-over investors and/or third-party co-investors) will not share in incurring such leverage and that the Fund will disproportionately bear the risk and/or costs of leverage arrangements. In addition, to the extent a

Fund incurs leverage (or provides such guaranties), such amounts are permitted to be secured by capital commitments made by such Fund's investors and such investors' contributions may be required to be made directly to the lenders instead of such Fund.

To the extent a Fund provides bridge financing to facilitate portfolio company investments, it is possible that all or a portion of such bridge financing will not be recouped within the time period specified in the Governing Documents, in which case the investment would be treated as a permanent investment of the Fund. As a result, the relevant Fund's portfolio could become more concentrated with respect to such investment than initially expected or otherwise provided for under the Fund's investment limitations, certain of which exclude bridge financing investments.

*Subscription Lines.* A Fund generally is permitted to enter into a subscription line with one or more lenders in order to finance its operations, including the acquisition, financing or refinancing of the Fund's investments, as well as to consolidate or make less frequent capital calls to limited partners. Fund-level borrowing subjects limited partners to certain risks and costs. For example, because amounts borrowed under a subscription line typically are secured by pledges of the relevant General Partner's right to call capital from the limited partners, limited partners may be obligated to contribute capital on an accelerated basis if the Fund fails to repay the amounts borrowed under a subscription line or experiences an event of default thereunder. Moreover, any limited partner claim against the Fund would likely be subordinate to the Fund's obligations to a subscription line's creditors.

In addition, Fund-level borrowing will result in additional partnership expenses that will be borne by investors. These expenses typically include interest on the amounts borrowed, unused commitment fees on the committed but unfunded portion of a subscription line, an upfront fee for establishing a subscription line, and other one-time and recurring fees and/or expenses, as well as legal fees relating to the establishment, structuring and negotiation of the terms of the borrowing facility, as well as expenses relating to maintaining, renegotiating or terminating the facility. Because a subscription line's interest rate is based in part on the creditworthiness of the relevant Fund's limited partners and the terms of the Governing Documents, it may be higher than the interest rate a limited partner could obtain individually. To the extent a particular limited partner's cost of capital is lower than the relevant Fund's cost of borrowing, Fund-level borrowing can negatively impact a limited partner's overall individual financial returns even if it increases the Fund's reported net returns in certain methods of calculation. Conflicts of interest have the potential to arise in that the use of Fund-level borrowing typically delays the need for limited partners to make contributions to a Fund, or results in short-term gains to a Fund, which in certain circumstances enhances the relevant Fund's internal rate of return calculations and thereby may be deemed to benefit the marketing efforts of the General Partner and its affiliates and increases the likelihood that any hurdle or preferred return component in the Fund's carried interest arrangements will be met. A portfolio company financing from a subscription line, rather than from a Fund-level equity commitment, has the potential to increase such returns, particularly in instances where the relevant amount has been drawn for an extended period of time. In other circumstances the use of Fund-level borrowing can increase the base of a Fund's Management Fee calculation, such as during periods where Management Fees are based in whole or in part on an acquisition cost that includes a borrowing component. Because Management Fees are incurred whether an investment is

financed through capital calls or borrowings, and a Fund's preferred return typically does not accrue on outstanding borrowings, the relevant General Partner has an incentive to cause the Fund to make investments and/or pay such amounts using a subscription line rather than making capital calls. The use of Fund-level borrowing arrangements, and the repayment or non-repayment thereof, can also influence the determination of the end of a Fund's investment period, and cause or defer a related change in the basis of the relevant Fund's Management Fee calculation under the Governing Documents. Conflicts of interest also have the potential to arise to the extent that a subscription line is used to make an investment that is later sold in part to co-investors (including one or more co-investing Funds) as, to the extent co-investors are not required to act as guarantors under the relevant facility or pay related costs or expenses, co-investors nevertheless stand to receive the benefit of the use of the subscription line and neither the relevant Fund nor investors generally will be compensated for providing the relevant guarantee(s) or being subject to the related costs, expenses and/or liabilities.

A credit agreement or borrowing facility frequently will contain other terms that restrict the activities of a Fund and the limited partners or impose additional obligations on them. For example, certain lenders or facilities are expected to impose restrictions on the relevant General Partner's ability to consent to the transfer of a limited partner's interest in a Fund or impose concentration or other limits on the Fund's investments, and/or financial or other covenants, that could affect the implementation of the Fund's investment strategy. In addition, in order to secure a subscription line, the relevant General Partner may request certain financial information and other documentation from limited partners to share with lenders. The General Partner will have significant discretion in negotiating the terms of any subscription line and may agree to terms that are not the most favorable to one or more limited partners. In certain circumstances, due to separate evaluations of creditworthiness by lenders or facility providers, a portfolio company or other Fund subsidiary is expected to bear higher rates under a borrowing facility than are borne by the Fund, resulting in additional potential liquidity constraints or other burdens on the relevant portfolio company or Fund subsidiary.

Fund-level borrowing involves a number of additional risks. For example, drawing down on a subscription line allows a General Partner to fund investments and pay partnership expenses without calling capital, potentially for extended periods of time. Calling a large amount of capital at once to repay the then-current amount outstanding under a subscription line could cause short-term liquidity concerns for limited partners that would not arise had the relevant General Partner called smaller amounts of capital incrementally over time as needed by a Fund. This risk would be heightened for a limited partner with commitments to other funds that employ similar borrowing strategies or with respect to other leveraged assets in its portfolio; a single market event could trigger simultaneous capital calls, requiring the limited partner to meet the accumulated, larger capital calls at the same time. The General Partners are authorized to use Fund-level borrowing to pay Management Fees and to reimburse HCI for expenses incurred on behalf of the Funds. A Fund is also permitted to utilize Fund-level borrowing when the General Partner expects to repay the amount outstanding through means other than limited partner capital, including as a bridge for equity or debt capital with respect to an investment. If the Fund ultimately is unable to repay the borrowings through those other means, limited partners would end up with increased exposure to the underlying investment, which could result in greater losses.

In borrowing on behalf of a Fund, HCI is subject to conflicts of interest between repaying its obligations and retaining such borrowed amounts for the benefit of the Fund, and in circumstances where interest accrues on any such outstanding borrowings at a rate lower than the relevant Fund's preferred return, is expected to have incentives to cause the Fund to borrow in this manner rather than drawing down capital commitments. Where a preferred return begins to accrue after capital contributions are due (regardless of when the Fund borrows, makes the relevant investment, or pays expenses) and ceases to accrue upon return of these capital contributions, the use of borrowing to shorten the period between calling and returning capital limits the amount of time the preferred return will accrue. In circumstances where there is not a preferred return on funds borrowed in advance or in lieu of calling capital, Fund-level borrowing typically will reduce the amount of preferred return to which the limited partners would otherwise be entitled had the General Partner called capital, and thus could result in the relevant General Partner receiving carried interest sooner than it would without borrowing. In addition, when the Management Fee is calculated as a percentage of invested capital, a limited partner may pay Management Fees on borrowed amounts used to fund investments that have not yet been realized even though such amounts would not accrue preferred return as described above. It is expected that the costs relating to the establishment and/or maintenance of a subscription line of credit will be significant, and there can be no assurance that the benefits to limited partners will be commensurate with such costs.

If an investment appreciates in value and is disposed of prior to repayment, the relevant Fund generally would apply disposition proceeds to repay the borrowing and related interest and expenses, the absence of invested capital funded by limited partners potentially will result in a distribution of net proceeds without a preferred return accrual on the amount invested. Accordingly, borrowings have the potential to support the distribution of proceeds to limited partners and increase the potential carried interest for the relevant General Partner, as reduced by the interest incurred by the relevant Fund. Subject to any limitations in the Governing Documents, this scenario potentially incentivizes the relevant General Partner to permanently fund the acquisition and ongoing capital needs of a Fund's investments and related expenses with the proceeds of such borrowings in lieu of drawing down capital contributions on an as-needed basis, and, accordingly, capital contributions to repay such borrowings may be required only at the time of the disposition of an investment (or never, if principal and interest on such borrowings are always repaid out of disposition proceeds).

*Investment- and Intermediate Entity-Level Borrowing.* Under the Governing Documents, a Fund is generally permitted to incur indebtedness that is secured by any assets of the Fund (e.g., asset-based borrowing, as well as "back leverage" and net asset value (NAV) facilities), and is permitted, directly or indirectly, through one or more intermediate entities (e.g., special purpose vehicles) to incur indebtedness, including to borrow money from any person, to make guarantees or provide other credit support to any person or to incur any other obligation (including other extensions of credit). Indebtedness is generally permitted to be incurred for any purpose relating to the activities of a Fund, including, without limitation, to: finance any investment-related activities of the Fund; increase the buying power of the Fund; provide interim financing to the extent necessary to consummate the purchase of investments prior to the receipt of permanent financing or capital contributions or distributions (as applicable); pay for Fund expenses or fund the payment of Management Fees; make, hold or dispose of investments; provide financing or refinancing; fund the payment of amounts to withdrawing limited partners;

fund distributions to the partners; and/or provide collateral to secure outstanding letters of credit or to create reserves, in each case in accordance with the Governing Documents. Additionally, a Fund is expected to enter into letters of credit in support of one or more of its investments, including for the purpose of such Fund agreeing to fund additional equity financing or capital expenditures into a portfolio company (regardless of who the beneficiary to such letter of credit may be) at a certain time or upon the occurrence of a certain event. Although in many cases the Governing Documents impose limits on borrowings at the Fund level, portfolio investments and intermediate entities generally do not have such limits on their ability to engage in borrowings or incur leverage with respect to all or a portion of the relevant investments.

*Restricted Nature of Investment Positions.* Generally, there will be no readily available market for a substantial number of each Fund's investments, and hence, most of a Fund's investments will be difficult to value. Certain investments may be distributed in-kind to the investors of a Fund and it may be difficult to liquidate the securities received at a price or within a time period that is determined to be ideal by such investors. After a distribution of securities is made to the investors, many investors may decide to liquidate such securities within a short period of time, which could have an adverse impact on the price of such securities. The price at which such securities may be sold by such investors may be lower than the value of such securities determined pursuant to the Governing Documents, including the value used to determine the amount of carried interest available to the relevant General Partner with respect to such investment.

*Reliance on the General Partner and Portfolio Company Management.* Any newly formed Funds will have no operating history and will be entirely dependent on the relevant General Partner. Control over the operation of each Fund will be vested entirely with the relevant General Partner, and the Fund's future profitability will depend largely upon the business and investment acumen of the principals. The loss of service of one or more of the principals could have an adverse effect on the Funds' ability to realize their investment objectives. Limited partners generally have no right or power to take part in the management of a Fund, and as a result, the investment performance of the Fund will depend entirely on the actions of the General Partner. Although the General Partners will monitor the performance of each Fund investment, it will primarily be the responsibility of each portfolio company's management team to operate the portfolio company on a day-to-day basis. Although the Funds generally intend to invest in companies with strong management or recruit strong management to such companies, there can be no assurance that the existing management of such companies will continue to operate a company successfully.

*Lack of Unilateral Control.* Even if a Fund is the majority investor or controlling shareholder, as applicable, of a portfolio company, in certain circumstances it may not have unilateral control of the portfolio company. To the extent a Fund invests alongside third parties, such as institutional co-investors or private equity funds of other sponsors, is subject to terms and conditions imposed by portfolio company lenders, or makes a minority investment, the relevant portfolio company may be controlled or influenced by persons who have economic or business interests, investment or operational goals, tax strategies or other considerations that differ from or are inconsistent with those of a the relevant Fund or its limited partners. Such third parties may be in a position to take action contrary to a Fund's business, tax or other interests, and the Fund may not be in a position to limit such contrary actions or otherwise protect the value of its



investment. When taking non-control positions, a Fund generally will seek to negotiate certain negative controls and veto rights on major decisions, but there can be no assurance that a Fund will be able to control the timing or occurrence of an exit strategy for such portfolio companies in a manner that maximizes or protects value.

*Projections.* Projected operating results of a company in which a Fund invests normally will be based primarily on financial projections prepared by each company's management, with adjustments to such projections by HCI in its discretion. In all cases, projections are only estimates of future results that are based upon information received from the company and third parties and assumptions made at the time the projections are developed. There can be no assurance that the results set forth in the projections will be attained, and actual results may be significantly different from the projections. Also, general economic factors, which are not predictable, can have a material effect on the reliability of projections.

*Need for Follow-On Investments.* Following its initial investment in a given portfolio company, the applicable General Partner is permitted to decide to provide additional funds to such portfolio company or consider the opportunity to increase its investment in a portfolio company, whether for opportunistic reasons, to fund the needs of the business, as an equity cure under the applicable debt documents or for other reasons. There can be no assurance that any Fund will make follow-on investments or that any Fund will have sufficient funds to make all or any of such investments. Any decision by a Fund not to make follow-on investments or its inability to make such investments may have a substantial negative effect on a portfolio company in need of such an investment (including an event of default under applicable debt documents in the event an equity cure cannot be made), result in a lost opportunity for the Fund to increase its participation in a successful operation or the dilution of the relevant Fund's ownership in a portfolio company if a third party or co-investor is permitted to invest.

*Non-U.S. Investments.* Each Fund is authorized to invest in portfolio companies that are organized, headquartered and/or have substantial sales or operations outside of the United States, its territories, and possessions, subject to the limitations set forth in its Governing Documents. Such investments may be subject to certain additional risk due to, among other things, potentially unsettled points of applicable governing law, the risks associated with fluctuating currency exchange rates, capital repatriation regulations (as such regulations may be given effect during the term of the Fund), the application of complex U.S. and non-U.S. tax rules to cross-border investments, possible imposition of non-U.S. taxes on a Fund and/or the Partners with respect to such Fund's income, and possible non-U.S. tax return filing requirements for such Fund and/or the Partners.

Additional risks include: (a) risks of economic dislocations in the host country; (b) less publicly available information; (c) less well-developed regulatory institutions; and (d) greater difficulty of enforcing legal rights in a non-U.S. jurisdiction. Moreover, non-U.S. companies may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to U.S. companies.

*Hedging Arrangements.* A General Partner is authorized (but not obligated) to endeavor to manage the relevant Fund's or any portfolio company's currency exposures, interest rate exposures or other exposures, using hedging techniques where available and appropriate. A Fund

is permitted to incur costs related to such hedging arrangements, which are permitted to be undertaken in exchange-traded or over-the-counter ("OTC") contexts, including futures, forwards, swaps, options and other instruments. There can be no assurance that adequate hedging arrangements will be available on an economically viable basis or that such hedging arrangements will achieve the desired effect, and in some cases hedging arrangements may result in losses greater than if hedging had not been used. In some cases, particularly in OTC contexts, hedging arrangements will subject a Fund to the risk of a counterparty's inability or refusal to perform under a hedging contract, or the potential loss of assets held by a counterparty, custodian or intermediary in connection with such hedging. OTC contracts may expose a Fund to additional liquidity risks if such contracts cannot be adequately settled. Certain hedging arrangements may create for a General Partner and/or one of its affiliates an obligation to register with the US Commodity Futures Trading Commission (the "CFTC") or other regulator or comply with an applicable exemption. Losses may result to the extent that the CFTC or other regulator imposes position limits or other regulatory requirements on such hedging arrangements, including under circumstances where the ability of a Fund or a portfolio company to hedge its exposures becomes limited by such requirements.

*Public Company Holdings.* Subject to any limitation in the relevant Governing Documents, a Fund generally is permitted to make investments in public companies. In addition, a Fund may hold public company investments as a result of a sale of all or a part of such Fund's investment in a portfolio company, such as when a portfolio company goes public or is sold to a public company for stock. As a result, a Fund's investment portfolio generally is permitted to contain debt and/or equity securities issued by publicly held companies. Such investments subject a Fund to risks that differ in type or degree from those involved with investments in privately held companies. Such risks include, without limitation, greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of such Fund to dispose of such securities at certain times, increased likelihood of shareholder litigation and insider trading allegations against such companies' executives and board members, including the principals, and increased costs associated with each of the aforementioned risks.

*Director Liability.* A Fund will typically seek to obtain the right to appoint a representative(s) to the board of directors of the companies in which it invests. Serving on the board of directors of a portfolio company exposes a Fund's representatives, and ultimately such Fund, to potential liability. Not all portfolio companies may obtain insurance with respect to such liability, and the insurance that portfolio companies do obtain may be insufficient to adequately protect officers and directors from such liability.

*Non-Controlling Investments.* A Fund may hold meaningful minority stakes in privately held companies (which may decrease in connection with the process of exiting an investment). As is the case with minority holdings in general, such minority stakes that a Fund holds will have neither the control characteristics of majority stakes nor the valuation premiums accorded majority or controlling stakes. Where a Fund holds a minority stake, it may be more difficult for such Fund to liquidate its interests than it would be had the Fund owned a controlling interest in such company. Even if the Fund has contractual rights to seek liquidity of the Fund's minority interests in such companies, it may be very difficult to sell such interests or seek a sale of such

company upon terms acceptable to the Fund, especially in cases where the interests of the other investors in such company have different business and investment objectives and goals.

*Uncertain Economic, Social and Political Environment.* Consumer, corporate and financial confidence may be adversely affected by current or future tensions around the world, fear of terrorist activity and/or military conflicts, localized or global financial crises, virus or disease epidemics or other sources of political, social or economic unrest. Such erosion of confidence may lead to or extend a localized or global economic downturn. A climate of uncertainty may reduce the availability of potential investment opportunities, and increases the difficulty of modeling market conditions, potentially reducing the accuracy of financial projections. In addition, limited availability of credit for consumers, homeowners and businesses, including credit used to acquire businesses, in an uncertain environment or economic downturn may have an adverse effect on the economy generally and on the ability of a Fund and its portfolio companies to execute their respective strategies and to receive an attractive multiple of earnings on the disposition of businesses. This may slow the rate of future investments by such Fund and result in longer holding periods for investments. Furthermore, such uncertainty or general economic downturn may have an adverse effect upon such Fund's portfolio companies.

*Public Health Emergencies; COVID-19.* Pandemics and other widespread public health emergencies, including outbreaks of infectious diseases such as SARS, H1N1/09 flu, avian flu, Ebola and COVID-19, have resulted in historic market disruptions, and future such emergencies have the potential to materially and adversely impact economic production and activity in ways that are impossible to predict, all of which may result in significant losses to the Funds.

The ultimate impact of any such health emergency — and any resulting decline in economic and commercial activity — on global economic conditions, and on the operations, financial condition and performance of any particular industry or business, is impossible to predict, but could have a significant adverse impact and result in significant losses to the Funds. The extent of the impact on the Funds' and their portfolio companies' operational and financial performance will depend on many factors, all of which are highly uncertain and cannot be predicted, and this impact may include significant reductions in revenue and growth, unexpected operational losses and liabilities, impairments to credit quality and reductions in the availability of capital. These same factors may limit the ability of the Funds to source, diligence and execute new investments and to manage, finance and exit investments in the future, and governmental mitigation actions may constrain or alter existing financial, legal and regulatory frameworks in ways that are adverse to the investment strategy the Funds intend to pursue, all of which could adversely affect the Funds' ability to fulfill their investment objectives. They may also impair the ability of portfolio companies or their counterparties to perform their respective obligations under debt instruments and other commercial agreements (including their ability to pay obligations as they become due), potentially leading to defaults with uncertain consequences. In addition, the operations of the Funds, their portfolio companies, the General Partners and HCI may be significantly impacted, or even temporarily or permanently halted, as a result of any such health emergencies, or any measures, restrictions, remote-working requirements and other factors related thereto, including its potential adverse impact on the health of any such entity's personnel. These measures may also hinder such entities' ability to conduct their affairs and activities as they normally would, including by impairing usual communication channels and methods, hampering the performance of administrative functions such as processing payments

and invoices, and diminishing their ability to make accurate and timely projections of financial performance.

*Unfunded Pension Liabilities of Portfolio Companies.* Certain court decisions have found that, where an investment fund owns 80% or more (or under certain circumstances less than 80%) of a portfolio company, such fund (and any other 80%-owned portfolio companies of such fund) might be found liable for certain pension liabilities of such a portfolio company to the extent the portfolio company is unable to satisfy such liabilities. Although HCI intends to manage each Fund's investments to minimize any such exposure, a Fund is permitted to invest in a portfolio company that has unfunded pension fund liabilities, including structuring the investment in a manner where such Fund owns an 80% or greater interest in such a portfolio company. If such Fund (or other 80%-owned portfolio companies of such Fund) were deemed to be liable for such pension liabilities, this could have a material adverse effect on the operations of the Fund and the companies in which such Fund invests. This discussion is based on current court decisions, statute and regulations regarding control group liability under the Employee Retirement Income Security Act of 1974, as amended, as in effect as of the date of this Brochure, which may change in the future as the case law and guidance develops.

*Valuation of Investments.* Generally, the relevant General Partner will determine the value of all the related Fund's investments for which market quotations are available based on publicly available quotations. However, market quotations will not be available for virtually all of a Fund's investments because, among other things, the securities of portfolio companies held by such Fund generally will be illiquid and not quoted on any exchange. There can be no assurance that the relevant General Partner will have all the information necessary to make valuation decisions in respect of these investments, or that any information provided by third parties on which such decisions are based will be correct. There can be no assurance that the valuation decision of a General Partner with respect to an investment will represent the value realized by the relevant Fund on the eventual disposition of such investment or that would, in fact, be realized upon an immediate disposition of such investment on the date of its valuation. Accordingly, the valuation decisions made by such General Partner may cause it to ineffectively manage the relevant Fund's investment portfolios and risks, and may also affect the diversification and management of such Fund's portfolio of investments.

*Cybersecurity Risks.* Recent events have illustrated the ongoing cybersecurity risks to which operating companies are subject, particularly operating companies in historically vulnerable industries such as the food services and retail industries. To the extent that a portfolio company, Fund, General Partners, HCI or one or more of their respective service providers is subject to cyber-attack or other unauthorized access is gained to their systems, substantial losses may occur in the form of stolen, lost or corrupted: (i) data or payment information; (ii) financial information; (iii) software, contact lists or other databases; (iv) proprietary information or trade secrets; or (v) other items. If technology systems are compromised, become inoperable for extended periods of time or cease to function properly, HCI, the Funds and/or portfolio companies may incur significant time or expense to fix or replace them and to seek to remedy the effects of such issues. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in HCI's, the Funds', portfolio companies' and/or service providers' operations, including the ability to make distributions to limited partners, and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including

personal information relating to investors (and the beneficial owners of investors). In certain events, a failure or deemed failure to address and mitigate cybersecurity risks may be the subject of civil litigation or regulatory or other action. The use of internet- or cloud-based programs, technologies and data storage applications generally heightens these risks, and the risks of attack are expected to be heightened in a remote work environment. Any of such circumstances could subject a portfolio company, or the relevant Fund, to substantial losses, including losses relating to: misappropriation of assets, intellectual property or confidential information; corruption, deletion or destruction of data; physical damage and repairs to systems; reputational harm; financial losses from remedial actions; and/or disruption of operations. Third parties, including activist, criminal, nation-state or terrorist actors, may also attempt fraudulently to induce portfolio companies or their personnel to disclose sensitive information (including passwords) in order to gain access to data, accounts, funds or other assets, or otherwise to inflict harm. In addition, in the event that such a cyber-attack or other unauthorized access is directed at HCI or one of its service providers holding its financial or investor data, HCI, its affiliates or the Funds may also be at risk of loss.

*Limited Access to Information.* Limited partners' rights to information regarding a Fund, the relevant General Partner or HCI generally will be specified, and in many cases strictly limited, by the Governing Documents. In particular, it is anticipated that the General Partner and its affiliates will obtain certain types of material information from or relating to a Fund's investments that will not be disclosed to limited partners because such disclosure is prohibited, including as a result of contractual, legal or similar obligations outside of HCI's control. Decisions by HCI or its affiliates to withhold information may have adverse consequences for limited partners in a variety of circumstances. For example, a limited partner that seeks to transfer its interest in a Fund may have difficulty in determining an appropriate price for such interest. Decisions to withhold information may also make it difficult for a limited partner to monitor HCI and its performance. Additionally, it is anticipated that limited partners that designate representatives to participate on a Fund's Advisory Committee generally may, by virtue of such participation, have more or earlier information about a Fund and its investments in certain circumstances than other limited partners. Limited partners generally will bear the expenses of responding to disclosure requests, including in connection with state public records, similar freedom of information and other laws, whether or not the relevant Fund succeeds in asserting confidentiality for requested documents and other materials, and HCI reserves the right to withhold certain information from investors subject to such laws for reasons relating to HCI's public reputation, business strategy or other reasons.

*Material, Non-Public Information; Other Regulatory Restrictions.* As a result of the operations of HCI and its affiliates, as well as in connection with officerships or directorships of HCI personnel, HCI frequently comes into possession of confidential or material, non-public information. Therefore, HCI and its affiliates may have access to material, non-public information that may be relevant to an investment decision to be made by a Fund. Consequently, a Fund may be restricted from initiating a transaction or selling an investment which, if such information had not been known to it, may have been undertaken on account of applicable securities laws or HCI's internal policies and practices.

Similarly, anti-money laundering, anti-boycott and economic and trade sanction laws and regulations in the United States and other jurisdictions may prevent HCI or the Funds from

entering into transactions with certain individuals or jurisdictions. The United States Department of the Treasury's Office of Foreign Assets Control ("**OFAC**") and other governmental bodies administer and enforce laws, regulations and other pronouncements that establish economic and trade sanctions on behalf of the United States. Among other things, these sanctions may prohibit transactions with or the provision of services to, certain individuals or portfolio companies owned or operated by such persons, or located in jurisdictions identified by OFAC. Additionally, antitrust laws in the U.S. and other jurisdictions give broad discretion to the U.S. Federal Trade Commission, the United States Department of Justice and other U.S. and non-U.S. regulators and governmental bodies to challenge, impose conditions on, or reject certain transactions. In certain circumstances, antitrust restrictions relating to one Fund's acquisition of a portfolio company may preclude other Funds from making an attractive acquisition or require one or more other Funds to sell all or a portion of certain portfolio companies owned by them.

As a result of any of the foregoing, a Fund may be adversely affected because of HCI's inability or unwillingness to participate in transactions that may violate such laws or regulations, or by remedies imposed by any regulators or governmental bodies. Any such laws or regulations may make it difficult or may prevent a Fund from pursuing investment opportunities, require the sale of part or all of certain portfolio companies on a timeline or in a manner deemed undesirable by HCI or may limit the ability of one or more portfolio companies from conducting their intended business in whole or in part. Consequently, there can be no assurance that any Fund will be able to participate in all potential investment opportunities that fall within its investment objectives.

*Sanctioned Investors.* If after subscribing to a Fund a limited partner is included on a list of prohibited persons maintained by a relevant regulatory or governmental authority (including OFAC or equivalent non-U.S. authorities) (a "**Sanctions List**"), the relevant General Partner will have the sole discretion to determine the resolution, remedy and manner of compliance of the Fund with applicable laws, including, without limitation, a "freeze" on distributions and/or capital calls from the relevant limited partner and reporting to the relevant authorities. Adverse actions by any such authorities, including temporary or permanent stays or holds on the Funds' activities, could materially and adversely affect the Funds.

*CFIUS and National Security Clearance Considerations.* Certain investments are expected to be subject to or require review and approval by the U.S. Committee on Foreign Investment in the United States ("**CFIUS**"), such as where CFIUS-related laws, regulations or guidance deem non-U.S. persons or entities under their control (such as a Fund, co-investors and/or rollover sellers) to be acquiring a U.S. business (including a business with assets, personnel, facilities, and/or operations in the United States). CFIUS has the authority to review proposed or existing transactions or investments or to seek to impose limitations on or prohibit investments, and CFIUS filings and other considerations can materially impact transaction timing, feasibility, certainty and costs. In certain circumstances, CFIUS considerations have the potential to prevent a Fund from maintaining or pursuing investments, or limit the universe of available buyers for an existing investment. Any of these factors have the potential to adversely affect a Fund's performance, and the likelihood that CFIUS considerations will be implicated is expected to increase where non-U.S. limited partners comprise a substantial percentage of a Fund. Under the Governing Documents, the relevant General Partner generally is authorized, although not required, to excuse or otherwise limit non-U.S. limited partners' ability to invest in

U.S. businesses (or to exercise voting or Advisory Committee rights with respect thereto) in order to anticipate or comply with CFIUS considerations. However, there can be no assurance that invoking any such excuse provisions or other limitations will allow a Fund to proceed with or maintain any investment, or to avoid losses relating thereto. Similar considerations are expected to apply with respect to reviews by non-U.S. national security or investment clearance regulators.

*Privacy and Data Protection Law Compliance Risk.* The adoption, interpretation and application of consumer protection, data protection and/or privacy laws and regulations in the United States, Europe and other jurisdictions (collectively, "**Privacy Laws**") could significantly impact current and planned privacy and information security related practices, the collection, use, sharing, destruction, retention and safeguarding of personal data and current and planned business activities of HCI, the General Partners, the Funds and/or their portfolio companies, and increase compliance costs and require the dedication of additional time and resources to compliance for such entities. A failure to comply with such Privacy Laws by any such entity or their service providers could result in fines, sanctions or other penalties or litigation, which could materially and adversely affect the results of operations and overall business, as well as have a negative impact on reputation and Fund performance. As Privacy Laws are implemented, interpreted and applied, compliance costs for HCI, the General Partners, the Funds and/or their portfolio companies, are likely to increase, particularly in the context of ensuring that adequate data protection and data transfer mechanisms are in place.

Certain jurisdictions, including U.S. states, have proposed, adopted or are considering similar Privacy Laws, which if enacted could impose significant costs, potential liabilities and operational and legal obligations. Such Privacy Laws are expected to vary from jurisdiction to jurisdiction, thus increasing costs, operational and legal burdens, and the potential for significant liability for regulated entities, which could include HCI, the General Partners, the Funds and/or their portfolio companies.

*United Kingdom ("**UK**") Exit from the European Union (the "**EU**").* The UK formally left the EU on January 31, 2020 ("**Brexit**"). After a transition period that ended on December 31, 2020, EU rules ceased to apply in the UK. Although the terms of the UK's future relationship with the EU were agreed in a trade and cooperation agreement. However, the agreement does not include an agreement on financial services and, as a result, UK firms in the financial sector have more limited access to the EU market than prior to Brexit and EU firms similarly have more limited access to the UK, owing to the loss of passporting rights under applicable EU and UK legislation. Alternative arrangements and structures may allow for the provision of cross-border marketing and services between the EU and UK, but these are subject to legal uncertainty and the risk that further legislative and regulatory restrictions could be imposed in the future.

As a result of the onshoring of EU legislation in the UK, UK firms are currently subject to many of the same rules and regulations as prior to Brexit. However, the UK Government has stated its intention to recast onshored EU legislation as part of UK legislation and regulation, which could result in substantive changes to regulatory requirements in the UK. It remains to be seen to what extent the UK may elect to implement or mirror future changes in the EU regulatory regime, or to diverge from the current EU-influenced regime over time. It is possible that the EU may respond to UK initiatives by restricting third-country access to EU markets. If the regulatory

regimes for EU and UK financial services change or diverge further, this could have an adverse impact on any Fund and its investments, including the ability of a Fund to achieve its investment objectives in whole or in part (for example, owing to increased costs and complexity and/or new restrictions in relation to cross-border access between the EU and non-EU jurisdictions).

There can be no assurance that any renegotiated laws or regulations will not have an adverse impact on a Fund and its investments, including the ability of a Fund to achieve its investment objectives.

The legal, political and economic uncertainty and disruption generally resulting from Brexit may adversely affect both EU- and UK-based businesses, including HCI and Fund portfolio companies, as applicable. Brexit has already led to disruptions in trade as businesses attempt to adapt cross-border procedures and rules applicable in the UK and in the EU to their activities, products, customers, and suppliers. Continuing uncertainty and the prospect of further disruption may also result in an economic slowdown and/or a deteriorating business environment in the UK and in one or more EU Member States.

*International Conflicts.* Wars and other international conflicts, such as the Israeli-Palestinian conflict and the ongoing military conflict between Russia and Ukraine, have caused disruption to global financial systems, trade and transport, among other things. In response, multiple other countries have put in place sanctions and other severe restrictions or prohibitions on certain of the countries involved, as well as related individuals and businesses. However, the ultimate impact of these conflicts and their effect on global economic and commercial activity and conditions, and on the operations, financial condition and performance of the Funds or any particular industry, business or investee country and the duration and severity of those effects, is impossible to predict.

These conflicts may have a significant adverse impact and result in significant losses to the Funds. This impact may include reductions in revenue and growth, unexpected operational losses and liabilities and reductions in the availability of capital. It may also limit the ability of a Fund to source, diligence and execute new investments and to manage, finance and exit investments in the future. Developing and further governmental actions (military or otherwise) may cause additional disruption and constrain or alter existing financial, legal and regulatory frameworks and systems in ways that are adverse to the investment strategy which any Fund intends to pursue, all of which could adversely affect the Fund's ability to fulfill its investment objectives.

*U.S. Taxation of Carried Interest.* U.S. federal income tax law treats certain allocations of capital gains to service providers by partnerships such as the Funds as short-term capital gain (taxed at higher ordinary income rates) unless the partnership has held the asset that generated such gain for more than three years. Additionally, Congress has considered proposed legislation that would treat certain income allocations to service providers by partnerships such as a Fund (including any carried interest) as ordinary income for U.S. federal income tax purposes that under current law are treated as an allocation of the partnership's income (and which may be taxed at lower rates than ordinary income). Such rules, as well as any such legislation that may be enacted in the future, could apply to reduce the after-tax returns of individuals associated with a Fund, its General Partner, or HCI who were or may in the future be granted direct or indirect



interests in carried interest, which could make it more difficult for the relevant General Partner and its affiliates to incentivize, attract and retain individuals to perform services for a Fund. This creates potential incentives for HCI to cause a Fund to hold investments for a longer period than would be the case if such greater-than-three-year holding period requirement did not exist.

*Changes to Benchmark Rates.* To the extent that a Fund's investments, borrowing facilities, hedging activities, or other assets or structures are tied to interest rates based on benchmark or reference rates, including the London Interbank Offered Rate ("**LIBOR**"), Secured Overnight Financing Rate ("**SOFR**") or other rates (each, a "**Benchmark Rate**"), the Fund may be subject to certain material risks, including the risk that a Benchmark Rate is terminated, ceases to be published or otherwise ceases to be broadly used by the market. Regulators, central banks, governments and other market participants have transitioned historical instruments and contracts away from LIBOR to new Benchmark Rates. This transition includes the potential to: increase volatility or illiquidity in markets; cause delays in or reductions to financing options for the Funds and their portfolio companies; increase the cost of borrowing; reduce the value of certain instruments or the effectiveness of certain hedges; cause uncertainty under applicable legal documentation; or otherwise impose costs and administrative burdens relating to factors that include document amendments and changes in systems. Future transitions to and from Benchmark Rates have the potential to have similar effects.

*Secondaries and other General Partner-Led Transactions.* There continues to be a significant market for secondary sales, General Partner-led transactions, continuation funds, successor fund investments and other transactions, and HCI reserves the right to dispose of (or seek additional capital for) Fund investments through such means. Many of these transactions involve an auction process run by an investment bank and a buyer (or buyer group) that agrees to purchase all or a portion of one or more investments that will continue to be managed by HCI following the transaction. Such transactions are permitted to be undertaken for various reasons, including, for example, to balance competing interests between offering liquidity to existing limited partners and maintaining exposure to an asset where HCI believes there is the potential for additional value generation. Where undertaken, existing limited partners typically are offered certain options relating to receiving liquidity from the transaction or continuing to maintain exposure to the asset, assets or a new portfolio of assets (including a portfolio that combines assets from multiple Funds sponsored by HCI and its affiliates), often on different terms than their original investment in the Fund. However, certain of such transactions are expected to involve: a limited partner investing (or being required to invest) additional capital in the existing Fund and/or other investment vehicles, a greater exposure to one or more particular portfolio companies; and/or a delay in the full liquidation of the Fund's investment. In other circumstances, even limited partners that elect to continue to hold a direct or indirect interest in the relevant portfolio company will have their interest adjusted as if distributed (*i.e.*, a portion of such interest will be allocated to the relevant General Partner to the extent of its right to receive carried interest, if any), effectively diluting their interests.

Each of these transactions has the potential for conflicts between the interests of a Fund or limited partner and those of HCI or any buyer group that typically are not applicable to more traditional investment sales. For example, in circumstances where HCI or an affiliate will continue to manage and receive fees and/or performance-based compensation relating to the subject assets following the transaction (potentially in addition to performance-based

compensation earned by the relevant General Partner on the sale of an asset from an existing Fund in such transaction), their incentives are expected to diverge from those of limited partners who elect to sell their interests. Similarly, there are potential conflicts of interest among the selling Fund, HCI, the relevant General Partner and any buyer group relating to the valuation and consideration offered for the subject investment(s). To the extent HCI requires existing limited partners and/or new buyers to commit capital to a continuation fund or another Fund managed by HCI in addition to the purchase amount paid in a transaction (including commitments to the relevant Fund in specified ratios to the purchase price), such requirement is expected to have a dilutive effect on the purchase price for the selling Fund and its limited partners. There can be no assurance that any such transaction will accurately reflect the fair market value of the investment(s) being sold. Further, the relevant General Partner is expected to be incentivized, including through the possibility of receiving additional compensation, to make investments in portfolio companies with the view of holding such investments for longer periods of time or to make investments that it would not otherwise have made if the possibility of liquidity through a secondary transaction did not exist. Where co-investors historically have been invested in an investment subject to such a transaction, there can be no assurance that they will receive the same liquidity or other options as limited partners in the relevant Fund, and in such circumstances HCI reserves the right to compel co-investors to receive cash or continue to hold an interest in the relevant investment. In other circumstances, certain limited partners will not be permitted to continue to maintain exposure to the asset(s) due to a lack of eligibility to invest in a continuation vehicle under relevant securities, tax or other considerations. Although relevant potential conflicts of interest are disclosed to limited partners and/or the relevant Advisory Committee prior to the closing of the transaction, there can be no assurance that HCI will successfully identify all conflicts of interest or resolve or mitigate all such conflicts of interest in favor of a Fund or any individual limited partner or group of limited partners. However, HCI reserves the right, in its sole discretion, to determine to engage in such transactions, subject to any approvals required in the relevant Governing Documents. HCI is permitted to seek the consent of the relevant Fund Advisory Committee(s) to waive conflicts associated with such transactions and accordingly not all limited partners will necessarily be able to approve or disapprove of such transactions. Similar to any prospective sale or disposition of Fund investments, to the extent such transactions are not consummated, the relevant Fund is expected to bear all of the related costs in the absence of an agreement with other parties to bear a portion of such costs.

*Social Media and Publicity Risk.* The use of social networks, message boards, internet channels and other platforms has become widespread within the United States and globally. As a result, individuals now have the ability to rapidly and broadly disseminate information or misinformation, without independent or authoritative verification. Any such information or misinformation regarding HCI, the Funds or one or more portfolio companies could have a material and adverse effect on the value of the Funds.

*Artificial Intelligence and Machine Learning Developments.* Recent technological advances in artificial intelligence and other machine learning technology (collectively, "**Machine Learning Technology**"), including OpenAI's release of its ChatGPT application, pose risks to HCI, the Funds and the Funds' portfolio companies. HCI personnel, Executive Partners, other Consultants and other associated persons of HCI or any affiliates of HCI could, unbeknownst to HCI, utilize Machine Learning Technology in a manner that could expose HCI, the Funds and/or

their portfolio companies to risk. HCI, the Funds and the Funds' portfolio companies could be further exposed to the risks of Machine Learning Technology if third-party service providers or any counterparties, whether or not known to HCI, also use Machine Learning Technology in their business activities. HCI will not be in a position to control the use of Machine Learning Technology in third-party products or services.

Use of Machine Learning Technology by any of the parties described in the previous paragraph could include the input of confidential information (including material, non-public information) – either in contravention of non-disclosure agreements, in contravention of HCI's policies, contractual or other obligations or restrictions to which any of the foregoing or any of their affiliates or representatives are subject, or otherwise in violation of applicable laws, rules or regulations relating to treatment of confidential and/or personally identifiable information (including material, non-public information) – into Machine Learning Technology applications, resulting in such confidential information becoming part of a dataset that is accessible by other third-party Machine Learning Technology applications and users.

Independent of its context of use, Machine Learning Technology is generally highly reliant on the collection and analysis of large amounts of data, and it is not possible or practicable to incorporate all relevant data into the model that Machine Learning Technology utilizes to operate. Certain data in such models will inevitably contain a degree of inaccuracy and error – potentially materially so – and could otherwise be inadequate or flawed, which would be likely to degrade the effectiveness of Machine Learning Technology. To the extent that HCI, the Funds or the Funds' portfolio companies are exposed to the risks of Machine Learning Technology use, any such inaccuracies or errors could have adverse impacts on HCI, the Funds or the Funds' portfolio companies. Conversely, to the extent competitors of HCI and its portfolio companies utilize Machine Learning Technology more extensively than HCI and its portfolio companies, there is a possibility that such competitors will gain a competitive advantage.

Machine Learning Technology and its applications, including in the and financial sectors, continue to develop rapidly, and it is impossible to predict the future risks that may arise from such developments.

*Financial Institution Risk; Distress Events.* An investment in a Fund is subject to the risk that one of the banks, brokers, counterparties, clearinghouses, exchanges, lenders or other custodians (each, a "**Financial Institution**") of some or all of the Fund's assets ( or any portfolio company's) assets fails to timely perform or otherwise defaults on its obligations or experiences insolvency, closure, seizure, receivership or other financial distress or difficulty (each, a "**Distress Event**"). Distress Events can be caused by factors including eroding market sentiment, significant withdrawals, fraud, malfeasance, poor performance, undercapitalization, market forces or accounting irregularities. If a Financial Institution experiences a Distress Event, HCI, any General Partner, the Funds and/or their portfolio companies may be unable to access deposits, borrowing facilities or other services, either permanently or for an indeterminate period of time. Although assets held by regulated Financial Institutions in the United States frequently are insured up to stated balance amounts by organizations such as the Federal Deposit Insurance Corporation, in the case of banks, and the Securities Investor Protection Corporation, in the case of certain broker-dealers, amounts in excess of the relevant insurance are subject to risk of total loss, and any non-U.S. Financial Institutions that are not subject to similar regimes pose

potentially increased risk of loss. While in recent years governmental intervention has often resulted in additional protections for depositors and counterparties in connection with Distress Events, there can be no assurance that any intervention will occur, be successful or avoid the risks of loss, substantial delays or negative impact on banking or brokerage conditions or markets.

Any Distress Event has a potentially adverse effect on the ability of HCI to manage the Funds and their investments, and on the ability of HCI, any Fund or any portfolio company to maintain operations, which in each case could result in operational burdens, significant losses and unconsummated investment acquisitions and dispositions. Such losses could include: a loss of funds; an obligation to pay fees and expenses in the event a Fund is unable to close a transaction (whether due to the inability to draw capital on a credit line provided by a Financial Institution experiencing a Distress Event, the inability of a Fund to access capital contributions or otherwise); the inability of a Fund to acquire or dispose of investments, including at prices that the relevant General Partner believes reflect the fair value of such investments; and/or the inability of HCI or portfolio companies to make payroll, fulfill obligations and/or maintain operations. If a Distress Event leads to a loss of access to a Financial Institution's services, it is also possible that HCI will experience operational burdens and expenses, and a Fund or a portfolio company will incur additional expenses and/or delays in putting in place alternative arrangements and/or that such alternative arrangements will be less favorable than those formerly in place (with respect to economic terms, service levels, access to capital or otherwise). There can be no assurance that HCI will be able to exercise contractual remedies under the agreements with Financial Institutions in the event of a Distress Event, or that such remedies will be successful or avoid losses, delays or other negative impacts. The Funds and their portfolio companies are subject to additional risks in the event a Financial Institution utilized by investors of a Fund or suppliers, vendors, service providers or other counterparties of a portfolio company become subject to Distress Events, which could have a material adverse effect on a Fund, its investors or such portfolio companies, including the risk of investor defaults.

Many Financial Institutions require, as a condition to using their services (including lending services), that HCI and/or the relevant Fund maintain all or a set amount or percentage of their respective accounts or assets with such Financial Institution, which heightens the risks associated with a Distress Event with respect to such Financial Institutions. Although HCI seeks to do business with Financial Institutions that it believes are creditworthy and capable of fulfilling their respective obligations to the Funds, HCI is under no obligation to use a minimum number of Financial Institutions with respect to any Fund, or to maintain account balances at or below the relevant insured amounts.

## **Conflicts of Interest**

HCI and its related entities engage in a broad range of advisory and non-advisory activities, including investment activities for their own account and for the account of other Funds, and providing transaction-related, operational, investment advisory, legal, management and other services to Funds, SPACs and portfolio companies. HCI will devote such time, personnel and internal resources as are necessary to conduct the business affairs of the Funds in an appropriate manner, as required by the relevant Governing Documents, although the Funds and their respective investments will place varying levels of demand on these over time. In the

ordinary course of HCI conducting its activities, the interests of a Fund likely will conflict with the interests of HCI, one or more other Funds, portfolio companies or their respective affiliates in certain circumstances. Certain of these conflicts of interest are discussed herein. As a general matter, HCI will determine all matters relating to structuring transactions and Fund operations using its reasonable judgment considering all factors it deems relevant, but in its sole discretion, subject in certain cases to the required approvals by the Advisory Committee(s) of the participating Fund(s).

During the investment period of a Fund, all appropriate investment opportunities will be pursued by HCI principals through such Fund, subject to certain limited exceptions set forth in the relevant Fund's Governing Documents. Without limitation, HCI principals currently manage, and expect in the future to manage, several other investments similar to those in which a Fund will be investing, and expect to direct certain relevant investment opportunities or resources to those investments. HCI personnel reserve the right to manage their own personal investments, whether or not through a formal family office or estate planning structure, to establish trusts, endowments, charitable programs, foundations or similar arrangements, and to pay or receive compensation relating to the foregoing. HCI's principals and HCI's investment staff will continue to manage and monitor such investments until their realization. Such other investments that HCI principals expect to control or manage generally have the potential to compete with companies acquired by a Fund. HCI principals are involved in the Funds regardless of the Fund's phase, whether fund raising, investing or advising portfolio companies. Since multiple Funds are involved there will be situations where one Fund requires more attention. Following the investment period of a Fund, HCI principals reserve the right to, and likely will, focus their investment activities on other opportunities and areas unrelated to such Fund's investments. To the extent an investment opportunity is received that is unsuitable for a Fund, in HCI's sole discretion, HCI and its personnel reserve the right to refer such opportunity to third parties or to make personal investments in the relevant opportunity. Unless restricted by the Governing Documents, HCI personnel are permitted to serve on boards or act in other roles unaffiliated with HCI, the Funds or their portfolio companies, including boards of charitable and educational institutions, public companies and former portfolio companies, and receive compensation in connection with such services and roles, and, except to the extent provided for in the relevant Governing Documents, no such compensation received by any HCI personnel will offset or otherwise reduce Management Fees.

HCI expects to be presented with certain investment opportunities that would be suitable not only for a Fund, but also for other Funds and other investment vehicles operated by advisory affiliates of HCI, including investment opportunities that might be suitable as an add-on investment for an existing portfolio company. In determining which investment vehicles should participate, either directly or indirectly through portfolio companies, in such investment opportunities, HCI and its affiliates are subject to potential conflicts of interest among the investors in such investment vehicles. Except as required by the relevant Governing Documents, HCI is not obligated to recommend any investment to any particular investment vehicle. Investments by more than one client of HCI in a portfolio company have the potential to also raise the risk of using assets of a client of HCI to support positions taken by other clients of HCI.

HCI must first determine which Fund(s) will, or are required to, participate in the relevant investment opportunity. HCI generally assesses whether an investment opportunity is appropriate

for a particular Fund based on the Fund's Governing Documents, as well as factors including, but not limited to, investment restrictions and objectives (including those set forth in the relevant Fund's Governing Documents, where applicable), strategies, life-cycle and structure. For example, a newly organized Fund generally will seek to purchase a disproportionate amount of investments until it is substantially invested. HCI will determine if the amount of an investment opportunity in which a Fund will invest exceeds the amount that would be appropriate for such Fund and any such excess is permitted to be offered to one or more potential co-investors (including co-investing Funds), as determined by the Governing Documents, side letters and HCI's procedures and practices regarding allocation.

Following such determination of allocation among Funds, HCI reserves the right to offer co-investment opportunities to one or more potential co-investors, including one or more co-investing Funds, Executive Partners and other Consultants, vendors, service providers and/or other third-parties, as determined by the Funds' Governing Documents, side letters and HCI's procedures and practices regarding allocation. HCI's procedures permit it to take into consideration a variety of factors in making such determinations, including, but not limited to: expressed interest in co-investment opportunities; expertise of the prospective co-investor in the geographic location, market or industry to which the investment opportunity relates; perceived ability to quickly execute on transactions; tax, regulatory, securities laws and/or other legal considerations (*e.g.*, qualified purchaser or qualified institutional buyer status); confidentiality concerns that arise in connection with providing the prospective co-investor with specific information relating to the investment opportunity; HCI's perception of whether the investment opportunity may subject the prospective co-investor to legal, regulatory, reporting or other burdens that make it less likely that the prospective co-investor would act upon the investment opportunity if offered or would impair HCI's ability to execute the relevant transaction in the desired time or on desired terms; size of the investment allocation and practicality of dividing it up among multiple co-investors; lender requirements; perceived public relations and reputational benefits or costs; existence of a formal or informal strategic relationship with the prospective co-investor; whether HCI believes that allocating investment opportunities to an investor or person will help establish, recognize, strengthen and/or cultivate relationships that have the potential to provide longer-term benefits to the relevant portfolio company, other portfolio companies, the Funds or HCI; whether the prospective co-investor has a history of consummating co-investment opportunities with HCI; the likelihood that the prospective co-investor would require governance rights that could complicate or jeopardize the transaction (instead of, in the alternative, assuming a more passive role in the transaction); whether the prospective co-investor has any interests in any competitor of the underlying investment; the extent to which a prospective co-investor has previously been granted co-investment opportunities related to other prospective co-investors; and other similar factors. Although HCI reserves the right to consider a prospective co-investor's willingness to invest in future Funds, such willingness generally will not be the sole determining factor considered by HCI in identifying co-investors.

Furthermore, HCI or its related persons expect to make decisions regarding whether and to whom to offer co-investment opportunities in consultation with other participants in the relevant transactions, such as a lender or co-sponsor. Co-investment opportunities typically will be offered to some and not to other Fund investors, and the consideration of the factors set forth above likely will result in certain investors receiving multiple opportunities to co-invest while others expressing interest in co-investments have the potential to receive none. Allowing any co-

investment generally reduces the amount of the relevant investment opportunity that theoretically could have been taken by the relevant Fund, and HCI expects to be subject to potential conflicts of interest in determining the amount of investment opportunity that should be allocated to the relevant Fund because (i) co-invest opportunities generally appeal to Fund investors and third parties, (ii) to the extent co-investments made by Fund investors are not subjected to Management Fees and/or performance-based compensation, co-investments blend the effective rates of compensation paid by such persons and (iii) co-investors' proportionate share of a particular investment typically is not subject to the Management Fee offset provisions of a Fund's Governing Documents. In order to facilitate the acquisition of a portfolio company, a Fund reserves the right to make (or commit to make) an investment in the company with a view to selling a portion of the investment to co-investors or other persons prior to or following the closing of the acquisition. In such event, the relevant Fund will bear the risk that any or all of the excess portion of such investment may not be sold or may only be sold on unattractive terms, including for example the risk that a portion of the investment will be syndicated at reduced cost, at cost, or at a lower amount at a time when the General Partner believes the value of such investment has appreciated or should be higher than that paid (or willing to be paid) by a co-investor. To the extent such a syndication is made, the General Partner's interest in limiting the Fund's exposure to a given investment while providing a potential benefit to co-investors investing at such lower values will give rise to a potential conflict of interest. As a consequence of a failed co-investment syndication process or a co-investment syndication on unattractive terms, the relevant Fund would be required to (i) bear the entire portion of any break-up, topping or other fees, costs and expenses related to such investment (including the proportionate share of such amounts that were expected to have been borne by co-investors), (ii) hold a larger-than-expected investment in such portfolio company, (iii) receive less-than-fair-market value for the syndicated portion of the investment and/or (iv) be diluted or realize lower than expected returns from such investment. When and to the extent that personnel and related persons of HCI and its affiliates make capital investments in or alongside certain Funds, HCI and its affiliates are subject to potentially conflicting interests in connection with these investments. There can be no assurance that any Fund's return from a transaction would be equal to and not less than another Fund participating in the same transaction or that it would have been as favorable as it would have been had such conflict not existed.

HCI's allocation of investment opportunities among the persons and in the manner discussed herein often will not result in proportional allocations among such persons, and such allocations likely will be more or less advantageous to some such persons relative to others. While HCI will allocate investment opportunities in a manner that it believes is fair and equitable to its clients under the circumstances over time and considering relevant factors, there can be no assurance that a Fund's actual allocation of an investment opportunity, if any, or the terms on which that allocation is made, will be as favorable as they would be if the potential conflicts of interest to which HCI expects to be subject, discussed herein, did not exist.

Where multiple Funds invest at the same, different or overlapping levels of a portfolio company's capital structure, there is a potential for conflicts of interest in determining the terms of each such investment. Questions may arise subsequently as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced or restructured. In troubled situations, decisions, including whether to enforce claims, or whether to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms

of any work-out or restructuring, may raise conflicts of interest, particularly with respect to Funds that have invested in different securities within the same portfolio company. If additional capital is necessary as a result of financial or other difficulties, or to finance growth or other opportunities, Funds may or may not provide such additional capital, and if provided, each Fund generally will supply such additional capital in such amounts, if any, as determined by HCI in its sole discretion.

Potential conflicts are expected to arise when and to the extent a Fund makes investments in conjunction with an investment being made by another Fund, or if it were to invest in the securities of a company in which another Fund has already made an investment. A Fund may not, for example, invest through the same investment vehicles, have the same access to credit or employ the same hedging or investment strategies as other Funds. This likely will result in differences in price, terms, leverage and associated costs. Where multiple Funds invest in the same company at different times, the first Fund to invest typically will bear a higher level of diligence and transaction fees, costs and expenses than later Funds; similarly, to the extent a transaction does not proceed, the first Fund to invest typically will bear the full amount of Broken Deal Expenses relating to the transaction, regardless of whether other Funds could or would have invested in the company in potential future transactions. Further, there can be no assurance that the relevant Fund and the other Fund(s) or vehicle(s) with which it co-invests will exit such investment at the same time or on the same terms. HCI and its affiliates reserve the right to express inconsistent views of commonly held investments or of market conditions more generally, including in instances where different portfolio manager or personnel express different views regarding the same investment. There can be no assurance that the return on one Fund's investments will be the same as the returns obtained by other Funds participating in a given transaction. Given the nature of the relevant conflicts there can be no assurance that any such conflict can be resolved in a manner that is beneficial to both Funds. In that regard, actions taken for one or more Funds may adversely affect other Funds.

In certain cases, HCI will have the opportunity (but, subject to any applicable restrictions or procedures in the relevant Governing Documents, no obligation) to identify one or more secondary transferees of interests in a Fund. In such cases, HCI will not receive compensation for identifying such transferees, and will use its discretion to select such transferees based on suitability and other factors similar to those employed in selecting co-investors, and unless otherwise required by the relevant Governing Documents, will determine in its sole discretion whether the opportunity to receive a transfer of Fund interests should be offered to one or more existing Fund investors.

Subject to any relevant restrictions or other limitations contained in the Governing Documents, HCI will allocate fees and expenses in a manner that it believes is fair and equitable to its clients under the circumstances over time and considering such factors as it deems relevant, but in any case in its sole discretion. In exercising such discretion, HCI expects to be faced with a variety of potential conflicts of interest.

As a general matter, Fund expenses typically will be allocated among all relevant Funds or co-invest vehicles receiving the benefit of such expenses (in the relevant General Partner's sole discretion) eligible to reimburse expenses of that kind. In all such cases, subject to applicable law and legal, contractual or similar restrictions, expense allocation decisions



generally will be made by HCI or its affiliates using their reasonable judgment, considering such factors as they deem relevant, but in their sole discretion to be fair and equitable across these vehicles. The allocations of such expenses may not be proportional, and any such determinations involve inherent matters of discretion, *e.g.*, in determining which Funds or co-invest vehicles benefit (or the extent to which they benefit) from the relevant service relating to the expense, or whether to allocate *pro rata* based on number of Funds or co-invest vehicles receiving related benefits or proportionately in accordance with asset size, or in certain circumstances determining whether a particular expense has greater benefit to a Fund or HCI. The Funds generally have different expense reimbursement terms, including with respect to Management Fee offsets, which is expected in certain cases to result in the Funds bearing different levels of expenses with respect to the same investment.

As a result of the Funds' controlling interests in portfolio companies, HCI and/or its affiliates typically have the right to appoint portfolio company board members (including current or former HCI personnel or persons serving at their request), or to influence their appointment, and to determine or influence a determination of their compensation. Portfolio company board members frequently approve compensation and/or other amounts payable to HCI and/or its affiliates. Unless such amounts are subject to the offset provisions described in each relevant Fund's Governing Documents, they will be in addition to any Management Fees or carried interest paid by a Fund to HCI. Additionally, certain HCI personnel have and in the future expect to serve as board members for certain public and/or private companies in which no Funds have an existing or expected investment or interest (including, for the avoidance of doubt, past portfolio companies). In discharging their duties to such third-party companies and the Funds and/or portfolio companies, such HCI personnel have the potential to be subject to conflicts of interest, particularly where such third-party companies provide services to or receive services from any Funds or portfolio companies. Further, to the extent such HCI personnel receive material, non-public information in connection with their activities in respect of such third-party companies, HCI and the Funds may be restricted or precluded from initiating a transaction or selling an investment that they may otherwise have undertaken.

Additionally, a portfolio company typically will reimburse HCI or service providers retained at HCI's discretion for expenses (including, without limitation, travel expenses and software licensing and similar fees) incurred by HCI or such service providers in connection with its performance of services for such portfolio company. Service provider expenses are required to be reimbursed whether or not there is overlap in expertise, function or services performed by HCI personnel. This subjects HCI and its affiliates to conflicts of interest because the Funds generally do not have an interest or share in these reimbursements, and the amount of such reimbursements over time is expected to be substantial. HCI determines the amount of these reimbursements for such services in its own discretion, subject to the Governing Documents and HCI's internal reimbursement policies and practices. Although the amount of individual reimbursements typically is not disclosed to investors in any Fund, their effect is reflected in each Fund's audited financial statements, and any fee paid or expense reimbursed to HCI or such service providers generally is subject to: agreements with or review by sellers, buyers and management teams; the review and supervision of the board of directors of or lenders to portfolio companies; and/or third party co-investors in its transactions. These factors help to mitigate related potential conflicts of interest.

In connection with its services to the Funds and their investments, HCI, its affiliates and personnel expect to receive the benefit of certain tangible and intangible benefits. For example, in the course of HCI's operations, including research, due diligence, investment monitoring, operational improvements and investment activities, HCI and its personnel expect to receive and benefit from information, "know-how," experience, analysis and data relating to Fund or portfolio company (as applicable) operations, terms, trends, market demands, customers, vendors and other metrics (collectively, "**HCI Information**"). In many cases, HCI Information will include tools, procedures and resources developed by HCI to organize or systematize HCI Information for ongoing or future use. Although HCI expects its Funds and their portfolio companies generally to benefit from HCI's possession of HCI Information, it is possible that any benefits will be experienced solely by other or future Funds or portfolio companies (or by HCI and its personnel) and not by the Fund or portfolio company from which HCI Information was originally received or derived. HCI Information will be the sole intellectual property of HCI and solely for the use of HCI. HCI reserves the right to use, share, license, sell or monetize HCI Information, without offset to Management Fees, and the relevant Fund or portfolio company will not receive any financial or other benefit of such use, sharing, licensure, sale or monetization. Additionally, expenses relating to the Funds or portfolio companies are expected to be charged using credit cards or other widely available third-party rewards programs that provide airline miles, hotel stays, travel rewards, traveler loyalty or status programs, "points," "cash back," rebates, discounts and other arrangements, perquisites and benefits under the available terms of such reward programs. Such programs are expected to vary over time, and any such rewards (whether or not *de minimis* or difficult to value) generally will inure to the benefit of the personnel participating in the rewards program, rather than the portfolio companies, the Funds or their respective investors; no such rewards will offset Management Fees.

HCI generally exercises its discretion to recommend to a Fund or to a portfolio company thereof that it contract for services with certain service providers, and such service providers are expected to include: (i) HCI or a related person of HCI (which is permitted to include a portfolio company of such Fund); (ii) an entity with which HCI or its affiliates or current or former personnel has a relationship or from which HCI or its affiliates or their personnel otherwise derives financial or other benefit, including relationships with joint venturers or co-venturers, or relationships where HCI personnel are seconded, or from which HCI receives secondees; or (iii) certain limited partners or their affiliates. For example, HCI expects to be presented with opportunities to receive financing and/or other services in connection with a Fund's investments from certain limited partners or their affiliates that are engaged in lending or related business. This discretion subjects HCI to conflicts of interest, because, although HCI intends to select service providers that it believes are aligned with its operational strategies and will enhance portfolio company performance and, relatedly, returns of the relevant Fund, HCI has a potential incentive to recommend the related or other person (including a limited partner) because of its financial or other business interest. There is a possibility that HCI, because of such belief or for other reasons (including whether the use of such persons could establish, recognize, strengthen and/or cultivate relationships that have the potential to provide longer-term benefits to the relevant Funds or HCI), would favor such retention or continuation even if a better price and/or quality of service could be obtained from another person. HCI will not necessarily seek out the lowest cost options when incurring (or causing a Fund or its portfolio companies to incur) such expenses. Although HCI generally seeks appropriate rates for services, it reserves the right to prioritize prior usage, perceived quality, sector competence or expertise, familiarity, onboarding

speed or other factors in retaining or recommending service providers. Additionally, HCI expects certain service providers, their affiliates and personnel to invest in, or co-invest alongside, one or more Funds, and due to the nature of the service provider relationships and the timing of services these persons have the potential to have information advantages relative to other investors or co-investors, and likely will be offered co-investment opportunities before such opportunities are presented to other interested prospective co-investors. Based on the foregoing factors, limited partners should not expect service providers to HCI or any Fund to provide services that will be the most beneficial to any limited partner. HCI will have a conflict of interest with a Fund in recommending the retention or continuation of a third-party service provider to such Fund or a portfolio company if such recommendation, for example, will provide HCI information about markets and industries in which HCI operates (or is contemplating operations) or will provide other services that are beneficial to HCI and/or one or more Funds. For example, HCI reserves the right to cause a Fund to make payments to investment banks and/or other intermediaries, all or a portion of which is for the purpose of generating future deal flow for such Fund; however, there can be no assurance that such payments will result in future deal flow, and in certain cases, future deal flow may inure to the benefit of another or successor Fund rather than the Fund making the payment. Whether or not HCI has a relationship or receives any financial or other benefit from recommending a particular service provider, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at a lower cost.

HCI has instituted a program pursuant to which portfolio companies owned by the Funds are given the option to participate in purchasing, vendor or similar arrangements with HCI, its affiliates and other portfolio companies, including, without limitation, with respect to software and/or other portfolio company analytics programs. Where applicable, participants expect to receive discounts as a result of the products or services being purchased on a group-wide basis. It is expected that HCI will, in some cases, pay certain costs in connection with the program and seek reimbursement from the applicable Funds and/or portfolio companies. No such reimbursements will result in additional offsets or reductions to the Management Fee.

HCI reserves the right to cause a Fund to enter into a transaction whereby the Fund (i) purchases securities from, or sells securities to, other Funds managed by HCI, or co-investors or co-investment vehicles or (ii) co-invests alongside such other Funds or co-investors. Such transactions have the potential to arise in the context of automatic or other re-balancing of an investment among parallel investing entities or in contexts where a portfolio company owned by one Fund is acquired by a portfolio company acquired by another Fund. In some cases a portfolio company of one Fund will be merged with or into a portfolio company owned by another Fund. Any of these transactions raise potential conflicts of interest, including where: (i) the investment of one Fund supports the value of portfolio companies owned by another Fund; or (ii) the transaction allows HCI or its affiliates to realize carried interest or receive future management fees or other compensation with respect to such investments. These conflicts are heightened to the extent the relevant securities are illiquid or do not have a readily ascertainable value, and there generally can be no assurance that the price at which such transactions are entered into represent what would ultimately be the underlying investment's fair value. To the extent required by the Governing Documents or otherwise in the sole discretion of HCI, HCI reserves the right to seek to mitigate such conflicts by seeking input from an unaffiliated third party (including the use of a consultant or investment banker paid for by the relevant Fund(s) to opine as to the

fairness or "arm's-length" nature of a purchase or sale price, whether or not part of a formal fairness opinion, "request for proposal" process, or proposal or quotation provided exclusively for the benefit of HCI) or by obtaining the consent of the relevant Fund(s) (including, where authorized, the consent of each Fund's Advisory Committee) to such transactions. HCI reserves the right to determine that the willingness of a third party to make an investment on the same or similar terms demonstrates the fairness of the relevant transaction (including its value) to the Fund under then-current market conditions and therefore determine not to obtain a consent or fairness opinion (except where required by applicable law). HCI intends that any such transactions be conducted in a manner that it believes to be fair and equitable to each Fund under the circumstances, including a consideration of the potential present and future benefits with respect to each Fund. Further, cross transactions are expected to arise in the context of automatic or other re-balancing of investments among parallel investing entities, and in such circumstances HCI generally will not seek a fairness opinion or advisory committee consent given that such transactions typically are effected close in time to the initial Fund's investment or pursuant to authorizing provisions in the relevant Governing Documents.

Although HCI generally structures Funds to avoid circumstances in which one Fund ultimately bears liability for all or part of the obligations of another Fund or any HCI affiliate, in certain circumstances lenders and other market participants negotiate for the right to face only select Fund entities, which may result in a single Fund being solely liable for other Funds' share of the relevant obligation and/or joint and several liability among Funds. In such cases, HCI intends to cause the relevant other Funds to enter into a back-to-back guarantee, indemnification or similar reimbursement arrangement, although the Fund undertaking the obligation in the first instance generally will not receive compensation for being primarily liable under these arrangements. In other circumstances, lenders and other market parties are expected to seek "cross default" rights under which a Fund will be treated as in default under the relevant facility in the event of a default by another Fund or a HCI affiliate relating to their respective lending or other facilities; if any such provision were to be triggered, a Fund's limited partners could suffer adverse effects resulting from any default by any Fund or a HCI affiliate, whether or not related to the Fund in which such limited partners have invested.

HCI and/or its affiliates reserve the right to employ or engage personnel with pre-existing ownership interests in or who were employed by portfolio companies owned by the Funds or other investment vehicles advised by HCI and/or its affiliates; conversely, former personnel or executives of HCI and/or its affiliates or former executives of prior portfolio companies are expected to serve in significant management roles at portfolio companies or service providers recommended by HCI, and any compensation received by such former personnel or executives will not offset or reduce the Management Fees paid by any Fund. Similarly, HCI, its affiliates and/or personnel maintain relationships with (or invest in) financial institutions, service providers and other market participants, including, but not limited to, managers of private funds, banks, brokers, advisors, consultants, finders (including executive finders and portfolio company finders), executives, attorneys, accountants, institutional investors, family offices, lenders, former personnel, and current and former portfolio company executives, as well as certain family members or close contacts of these persons. Certain of these persons or entities will invest (or will be affiliated with an investor) in, engage in transactions with and/or provide services (including services at reduced rates) to, HCI and/or its affiliates, and/or the Funds or other investment vehicles they advise. In other circumstances, these vendors are expected to provide

personal banking, private wealth or lending arrangements (including lending arrangements with respect to personal investments in or through HCI entities, whether or not relating to financing HCI personnel obligations to fund General Partner commitment obligations) to HCI personnel and their estate planning vehicles. HCI expects to be subject to a potential conflict of interest with a Fund in recommending the retention or continuation of a third-party service provider to such Fund or a portfolio company if such recommendation, for example, is motivated by a belief that the service provider or its affiliate(s) will continue to invest in one or more Funds, will provide HCI information about markets and industries in which HCI operates (or is contemplating operations) or will provide other services that are beneficial to HCI or one or more other Funds. HCI expects to be subject to a potential conflict of interest in making such recommendations, in that HCI has an incentive to maintain goodwill between it and the existing and prospective portfolio companies for a Fund, while the products or services recommended may not necessarily be the best available to a Fund or its portfolio companies.

HCI, its affiliates, and equity holders, officers, principals and personnel of HCI and its affiliates reserve the right to buy or sell securities or other instruments that HCI has recommended to a Fund. In addition, officers, principals and personnel reserve the right to buy securities in transactions deemed unsuitable for a Fund, but will not in such circumstances be required to share in, reimburse or compensate the relevant Fund for due diligence or other expenses (including Broken Deal Expenses) incurred by the Fund in connection with the Fund's consideration of the relevant investment opportunity. Any such transactions are subject to any restrictions in a Fund's Governing Documents and any related policies and procedures set forth in HCI's Code of Ethics. The investment policies, fee arrangements and other circumstances of these investments generally vary from those of any Fund. Personnel and related persons of HCI have, and are expected to continue to have, capital investments in or alongside certain Funds, or in prospective portfolio companies directly or indirectly, as well as in investment vehicles (including private funds) sponsored by potential competitors, and therefore expects to have additional potential conflicting interests in connection with these investments.

A Fund's General Partner generally is permitted to receive a distribution in kind from the Fund, including in connection with investment dispositions or the payment in kind of amounts owed to the General Partner as carried interest (which generally will be made using the value of the relevant securities on the date of distribution). In such circumstances, there is a potential conflict of interest between the General Partner (and its beneficial owners) and the relevant Fund's limited partners. For example, a General Partner and its beneficial owners may intend to hold the investment for a different time period than HCI deems suitable for the relevant Fund. Although a General Partner and its beneficial owners bear the risk that such securities will decrease during their holding period, to the extent the value of the relevant securities increases following the relevant Fund's disposition thereof, neither the relevant Fund nor its limited partners will benefit from the increase, and over time the economic benefit to the General Partner and its beneficial owners could exceed the value of the General Partner's *pro rata* interest in the Fund and the amount of carried interest owed. To the extent the beneficial owners of a General Partner contribute such securities to a charity (including to a private foundation or other charitable organization associated with, operated or chosen by such persons or their families), any tax efficiencies or other personal benefits associated with the contribution will inure to the benefit of such beneficial owners rather than to the relevant Fund or its limited partners.

Except to the extent prohibited by the Governing Documents, HCI and its personnel are permitted to market, organize, sponsor or act in other capacities (including as director, founder or manager) for other pooled investment vehicles, accounts or SPACs the investment or business strategy of which does not overlap with the Fund(s) and to receive compensation (including in the form of management fees, performance-based compensation, founders' equity or similar interests) relating thereto. Subject to any limitations imposed by the Governing Documents and anti-"assignment" provisions of the Advisers Act, HCI and its personnel are also permitted to offer, restructure and monetize interests in HCI.

In addition, as described above, portfolio companies (and, to a lesser extent, the Funds) typically pay certain fees to, and reimburse expenses of, third party advisors and consultants (including consultants introduced or arranged by HCI and/or its affiliates that regularly provide services to one or more portfolio companies), and such amounts do not offset or reduce the Management Fee as described herein. Third party advisors and consultants generally make use of HCI resources or otherwise are associated with HCI. HCI and/or its affiliates reserve the right to agree to compensate certain of such persons to the extent portfolio company-related compensation falls below certain specified levels on an aggregate annualized basis, or provide other compensation. Third party advisors and consultants are expected to include former personnel of HCI or certain portfolio companies, and in some circumstances former third party advisors and consultants are expected to become HCI personnel or personnel of portfolio companies. Consequently, the determination of whether individuals are third party advisors or consultants is expected to vary and/or be revisited, which poses potential conflicts of interest where certain changes in status or categorization would reduce costs that HCI otherwise would be required to bear. Third party consultants and advisors generally receive investment opportunities, reimbursements and other compensation that do not offset or reduce the Management Fee of any Fund, as described herein, and the use of third party consultants and advisors is expected to fluctuate and/or expand over time. Although the use of third party advisors and consultants and the allocation of compensation paid to them by HCI, its affiliates and/or the portfolio companies subjects HCI and/or its affiliates to potential conflicts of interest. HCI believes that such potential conflicts have the potential to be reduced by the anticipated cost savings and/or benefits to portfolio companies (which is expected to be to the benefit of the applicable Fund(s)) that will result if the cost of such persons is lower than market rates for the services provided and/or if the services of such persons align with HCI's model for the portfolio company and improve portfolio company performance. Although HCI seeks to retain such persons with a view to reducing costs to portfolio companies (and, ultimately, the Funds) and/or improving portfolio company performance, a number of factors may result in limited or no costs savings from such retention. HCI also seeks to reduce potential conflicts of interest resulting from such arrangements by structuring compensation packages for such persons in a manner that HCI believes will align such persons' interests with those of the Funds' limited partners, and seeks to retain only such service providers which it believes provide a level of service at a value generally consistent with other relevant market alternatives. However, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

Because HCI's carried interest is based on a percentage of net realized profits, there is a potential incentive for HCI to cause a Fund to make riskier or more speculative investments than would otherwise be the case. Also, because there is a fixed investment period after which capital

from investors in a Fund generally can only be drawn down in limited circumstances and because Management Fees are, at certain times during the life of a Fund, based upon capital invested by such Fund, this fee structure creates an incentive for HCI to deploy capital when HCI may not otherwise have done so.

The Governing Documents provide the Advisers with wide-ranging authority to make determinations, including those related to investment purchases and dispositions (and their timing), valuation and other matters that in each case have the potential to affect the Advisers' compensation. In making such determinations, the Advisers are subject to potential conflicts of interest. For example, the potential to earn additional compensation creates an incentive for the Advisers or their affiliates to make investments and to hold investments longer than otherwise would be the case in the absence of the relevant Fund's Management Fee and carried interest compensation arrangements. The Advisers expect to be incentivized to cause a Fund to make, hold, value and/or dispose of investments (and to delay or forego a determination that the investments are Impaired Value Investments) in order to receive greater ongoing Management Fees and, potentially, earlier and/or larger carried interest distributions than would otherwise be the case if such investments had not been made or held (or if such determination had not been made), including because of the possibility that the investments' values will appreciate in the future.

Where the Management Fee is calculated taking into account the valuation of an investment, including a determination of whether an investment has become an Impaired Value Investment, the Advisers will have incentives to make determinations that result in the continued payment of, or a higher, Management Fee. Where the Governing Documents do not require Management Fees to be reduced in connection with investment reorganizations, restructurings, roll-over investments, extraordinary dividends or similar transactions, the Advisers are incentivized to pursue such transactions. Additionally, the amount of carried interest owed to the relevant General Partner is dependent in part on the amount and timing of investment dispositions, as well as in certain instances determinations that investments are Impaired Value Investments, and the relevant General Partner expects to be subject to related potential conflicts of interest in determining whether and when to dispose of investments, make distributions, and/or determine that an investment is an Impaired Value Investment, within the requirements of the relevant Governing Documents.

The Advisers' wide-ranging authority on the determination of Impaired Value Investments, and the criteria used by the relevant General Partner or its affiliates in valuing an investment, or determining whether an investment is an Impaired Value Investment, have the potential to be subjective, to be influenced by market information and other factors and to vary over time. There can be no assurance that a third party or investor would agree with the substance or timing of the relevant General Partner's determination that an investment is an Impaired Value Investment, and, except as set forth in the Governing Documents, neither the General Partner nor its affiliates is obligated to follow any third-party methodology in making its determination on whether an investment meets the relevant standards or whether value can be recovered or retained during the Fund's holding period. The General Partner is entitled to make its own determination taking into account all facts and circumstances it deems relevant, subject to the provisions of the Governing Documents. As a general matter, the standards for determining Impaired Value Investments are intended to be high, and are not intended to apply to

investments experiencing partial or temporary declines in value. Because the amount of the Advisers' compensation is dependent in part on an investment's status as an Impaired Value Investment, the relevant General Partner faces potential conflicts of interest in determining whether an investment meets, or continues to meet, the relevant criteria. Although the Advisers intend to operate in accordance with the Governing Documents, as well as its valuation policy, in order to mitigate the potential for subjectivity in making such determinations, there can be no assurance that such policy will address all of the necessary factors to do so, or completely eliminate all potential conflicts of interest in such determinations.

HCI and/or its affiliates reserve the right to enter into side letters with certain investors in a Fund providing such investors with different or preferential rights or terms, including, but not limited to, different fee structures or arrangements (including discounted or rebated compensation terms, modified waterfall mechanics and/or receipt of a portion of HCI's compensation), information rights, specialized reporting, priority co-investment rights or targeted co-investment amounts, right to serve on the Fund's Advisory Committee, liquidity or transfer rights, confidentiality protections and disclosure rights, modification of default remedies, investment pacing restrictions, as well as economic procedural and other terms, many of which will not be subject to the "most-favored nation" provisions of a Fund's Governing Documents.

HCI is likely to have its own economic and/or other business incentives to provide certain terms to certain limited partners (*e.g.*, based on commitment amount to a Fund or the timing thereof, the ability of a limited partner to provide sourcing or other services to HCI, its affiliates and personnel or the Funds, or the potential to establish, recognize, strengthen or cultivate relationships that have the potential to provide longer-term benefits to HCI, its affiliates and personnel, or the Funds). Further, side letters also are expected to relate to strategic relationships under which an investor agrees to make capital commitments to multiple Funds. Except in the circumstances and on the timing required by the Governing Documents and/or applicable law, other investors will not receive copies of side letters or related provisions, and as a general matter, the other investors have no recourse against a Fund, the relevant General Partner or any of their affiliates in the event that certain investors have received additional and/or different rights and/or terms as a result of such side letters. Side Letters subject HCI to potential conflicts of interest, including in circumstances where an investor's right to serve on the relevant Fund's Advisory Committee results in the investor receiving additional information relative to other investors. To the extent an investor is subject to statutory or other limitations on indemnification, or otherwise negotiates rights relating thereto, other investors may be subject to increased losses, or be required to bear an increased portion of indemnification amounts. Other side letter rights are likely to confer benefits on the relevant limited partner at the expense of the relevant Fund or of limited partners as a whole, including in the event that a side letter confers additional reporting, information rights and/or transfer rights, the costs and expenses of which are expected to be borne by the relevant Fund.

As a consequence of one or more limited partners being excused or excluded from, or for regulatory, tax or other factors altering or limiting their participation in investments or ability to bear certain liabilities or obligations, the aggregate returns realized by participating or non-participating limited partners could be adversely affected in a material manner by the unfavorable performance of particular investments; similar considerations apply in the event a limited partner defaults on a drawdown in respect of an investment. Although HCI believes it to



be unlikely, excuse or other rights requested or received by one or more limited partners (or such regulatory, tax or other factors applicable to such limited partners) representing a substantial percentage of a Fund have the potential to create significant variations in limited partner investment returns or exposures to liabilities or obligations, or to influence or affect the investment strategy and pursuit of investment opportunities by the General Partner on behalf of the relevant Fund as a whole. A limited partner's voting rights for regulatory or other reasons can be limited in circumstances specified in the Governing Documents; conversely, a limitation on one or more limited partners' voting rights generally will increase the voting rights percentage of other limited partners in the relevant Fund. Further, limited partners with different domiciles or tax categorizations could receive different investment returns or amounts of tax basis and/or pay different levels of expenses, *e.g.*, based on tax savings or ownership of alternative investment vehicle, "blocker" or other structures used to facilitate their investments in, through or below a Fund.

HCI has incentives to use or to recommend products or services of one portfolio company to another, which generally will involve fees, commissions, servicing payments or other compensation. Potential conflicts of interest arise in making such recommendations, as HCI has incentives to maintain goodwill between it and its former, existing and prospective portfolio companies, and as a result the products or services recommended may not necessarily be the best or lowest cost option. In most cases, the relevant Fund(s) will not consent, participate in the negotiations or be directly involved in such arrangements. Discounted prices or better terms offered by a portfolio company to HCI, any other portfolio company or third parties have the potential to affect the returns of the portfolio company.

Although the Governing Documents generally contain broad exculpation and indemnification provisions, HCI will not interpret such provisions to constitute a waiver of any person's non-waivable federal fiduciary duties to the relevant Fund under the Advisers Act. The relevant liability standards under insurance coverage procured by HCI are expected to vary by carrier, and such standards are expected to vary depending on, for example, coverage features or limitations then-available from the carrier at the time of insurance contract renewal. As a result, insurance coverages are expected to vary from relevant liability and/or indemnity standards in the Governing Documents. Investors generally will be responsible for insurance premiums, as set forth in the Governing Documents, regardless of whether the liability and/or indemnity standards in HCI's insurance coverage are higher or lower than that set forth in the Governing Documents.

Any of these situations subjects HCI and/or its affiliates to potential conflicts of interest. HCI attempts to resolve such conflicts of interest in light of its obligations to investors in its Funds and the obligations owed by HCI's advisory affiliates to investors in investment vehicles managed by them, and attempts to allocate investment opportunities among a Fund, other Funds and such investment vehicles in a manner it believes to be fair and equitable to the Funds under the circumstances over time. To the extent that an investment or relationship raises particular conflicts of interest, HCI will review the circumstances of such investment or relationship with a view to addressing and reducing the potential for conflict. Where necessary, HCI consults and receives consent to conflicts from an Advisory Committee consisting of limited partners of the relevant Fund and such other investment vehicles.

Since the General Partners are permitted to retain certain fees (as described under "Fees and Compensation") in connection with Fund investments, there is the potential HCI could be subject to a conflict of interest in connection with approving transactions. HCI manages such conflicts by offsetting the Management Fee by a specified percentage of such fees and by a General Partner's interest in the carried interest of a Fund. In addition, the potential conflict is further mitigated by the fact that such fees generally are negotiated with the applicable portfolio company's management team.

### **DISCIPLINARY INFORMATION**

HCI and its management persons have not been subject to any material legal or disciplinary events required to be discussed in this Brochure.

### **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

HCI is affiliated with other advisory entities subject to the Advisers Act pursuant to HCI's registration in accordance with applicable SEC guidance. These entities are HC Equity Partners V, L.L.C., HCI Management III, L.P., HCI Management IV, L.P. and HCI Management V, L.P., each of which serves as a General Partner to the applicable Fund. Together, HCI and the General Partners operate as a single advisory business and may share common owners, officers, partners, personnel, consultants or persons occupying similar positions.

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

The Advisers have adopted a Code of Ethics and Securities Trading Policy and Procedures (the "Code") that sets forth standards of conduct that are expected of the Advisers' principals and personnel and addresses conflicts that arise from personal trading. The Code requires all of the Advisers' personnel to report their personal securities transactions and to obtain approval from the Advisers' Chief Compliance Officer prior to acquiring, directly or indirectly, beneficial ownership or disposing of securities in an initial public offering or in a limited offering. A copy of the Code will be provided to any existing or prospective client (or Fund investor) upon request to the Chief Compliance Officer at (202) 371-0150. Personal securities transactions by personnel who manage client accounts are required to be conducted in a manner that assures that the interests of the clients take precedence.

The Advisers and their affiliated persons may come into possession of material, non-public or other confidential information about public companies which, if disclosed, might affect an investor's decision to buy, sell or hold a security. Under applicable law, the Advisers and their affiliated persons would be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, regardless of whether such person is a client of the Advisers, and the Code requires such personnel to comply with procedures designed to prevent the misuse of, or trading upon, material, non-public information.

Accordingly, if the Advisers or any of their affiliated persons come into possession of material, non-public or other confidential information with respect to any public or non-public company, the Advisers generally would be prohibited from communicating such information to clients, and the Advisers will have no responsibility or liability for failing to disclose such

information to clients as a result of following their policies and procedures designed to comply with applicable law. Similar restrictions may be applicable as a result of the Advisers' personnel serving as directors of public companies and may restrict trading on behalf of clients.

Principals and personnel of the Advisers and their affiliates generally are expected to directly or indirectly own an interest in the Private Investment Funds, including through the Co-Invest Funds. To the extent that co-investment vehicles exist, such vehicles are expected to invest side-by-side in one or more of the same portfolio companies as the Private Investment Funds. As discussed above under "Methods of Analysis, Investment Strategies and Risk of Loss," each Adviser attempts to resolve such conflicts of interest in light of its obligations to investors in its Private Investment Funds and the obligations owed by HCI's advisory affiliates to investors in investment vehicles managed by them, and attempts to allocate investment opportunities among the Funds, other Private Investment Funds and such investment vehicles in a fair and equitable manner. The Funds or HCI may enter into side letters or similar agreements with certain investors that have the effect of establishing rights under, or altering or supplementing a Fund's Governing Documents, including provisions relating to the Management Fee (as defined below) and distributions.

The Advisers reserve the right to recommend the purchase or sale of securities for client accounts in which one or more of their members, officers, directors, personnel (and members of their families) or affiliates ("affiliated persons"), directly or indirectly, have a position or interest, or which an affiliated person buys or sells for himself or herself. Such transactions also are expected to include trading in securities in a manner that differs from or is inconsistent with the advice given to the clients of the Advisers or the Fund. HC Equity V, HCI Management III, HCI Management IV and HCI Management V have agreed to commit \$7.5 million, \$7.7 million, \$15 million and \$15.1 million respectively, to Thayer V, HCI III, HCI IV and HCI V, respectively.

### **BROKERAGE PRACTICES**

The Advisers focus on securities transactions of private companies and generally purchases and sells such companies through privately-negotiated transactions in which the services of a broker-dealer may be retained. However, the Advisers reserves the right to also distribute securities to investors in Funds or sell such securities, including through using a broker-dealer, such as where a public trading market exists. Although HCI does not intend to regularly engage in public securities transactions, to the extent it does so, it intends to follow the brokerage practices described below.

If the Advisers sell publicly traded securities for the Funds, they are responsible for directing orders to broker-dealers to effect securities transactions for accounts managed by the Advisers. The Advisers select brokers on the basis of best price and execution capability. In selecting a broker to execute client transactions, the Advisers reserves the right to consider a variety of factors, including: (i) prompt execution of orders, (ii) the reliability, integrity, financial condition and execution capability of the firm being considered for effecting transactions in light of the size and difficulty of executing the order, (iii) the price and (iv) the capabilities of firms to supply research services.

The Advisers have no duty or obligation to seek in advance competitive bidding for the most favorable commission rate applicable to any particular client transaction or to select any broker on the basis of its purported or "posted" commission rate, but will endeavor to be aware of the current level of the charges of eligible brokers and to minimize the expenses incurred for effecting client transaction to the extent consistent with the of such clients. Although the Advisers generally seek competitive commission rates, they will not necessarily pay the lowest commission or commission equivalent. Transactions may involve specialized services on the part of the broker involved and thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

Consistent with the Advisers seeking to obtain best execution, brokerage commissions on client transactions are permitted to be directed to brokers in recognition of research furnished by them. As a general matter, any research provided by these brokers is permitted to be shared between the Advisers and their affiliates and would be used to service one or more of the Private Investment Funds regardless of which Private Investment Fund paid the brokerage commissions being applied towards payment for such research services. There is no agreement or formula for the allocation of brokerage business on the basis of research services.

The Advisers are permitted, but not obligated, to purchase or sell securities for several Private Investment Funds at approximately the same time. Such orders may be combined or "batched" to facilitate obtaining best execution and/or to reduce brokerage commissions or other costs. Batched transactions are executed in a manner intended to ensure that no participating Private Investment Fund of the Advisers is favored over any other Private Investment Fund. To the extent such orders are not batched, they may have the effect of increasing brokerage commissions or other costs.

In HCI's private company securities transactions on behalf of the Funds, HCI reserves the right to retain one or more broker-dealers or investment banks, the costs of which will be borne by the relevant Fund and/or its portfolio companies. In determining to retain such parties, HCI reserves the right to consider a variety of factors, including: (i) capabilities with respect to the type of transaction being contemplated; (ii) commissions or fees charged; (iii) reputation of the firm being considered; and (iv) responsiveness to requests for information. As a result, although HCI generally will seek reasonable rates for such services, the market for such services involves more subjective evaluations than public securities brokerage transactions, and the Funds may not pay the lowest commission or fee for such services.

## **REVIEW OF ACCOUNTS**

The investments made by the Private Investment Funds generally are private, illiquid and long-term in nature. Accordingly, the review process is not directed toward a short-term decision to dispose of securities. However, the Advisers closely monitor companies in which their clients invest and generally will maintain an ongoing oversight position in such companies (including representation on the board of directors of such companies). The Advisers' Chief Compliance Officer periodically reviews each Fund's investments to confirm that the Fund is maintained in accordance with its stated objectives as set forth in its Governing Documents.

Each Fund generally provides to its limited partners: (i) annual audited financial statements, (ii) annual tax information necessary for each limited partner's tax return, and (iii) quarterly unaudited financial and other information. Each Co-Invest Fund generally provides to its members or limited partners, as applicable: (i) annual audited financial statements, (ii) annual tax information necessary for such member or limited partner's tax return, and (iii) the audited financial statements and quarterly reports provided to the limited partners of the Fund to which the Co-Invest Fund relates.

#### **CLIENT REFERRALS AND OTHER COMPENSATION**

The Advisers reserve the right to enter into solicitation arrangements pursuant to which the Advisers compensate persons for referrals that result in a potential investor becoming a limited partner in a Private Investment Fund. These arrangements generally are disclosed in the relevant Fund's Form D. Any fees payable to any such placement agents generally will be borne by HCI or the applicable General Partner indirectly through an offset against the Management Fee under the Governing Documents, although related expenses incurred pursuant to the relevant placement agent agreement or similar agreement, including, but not limited to, placement agent travel, meal and entertainment expenses typically are borne by the relevant Fund(s).

UBS Securities LLC ("UBS") was retained to solicit investors for HCI IV and HCI V. HCI IV reimbursed UBS for out of pocket expenses during the fundraising period (now ended) and HCI paid UBS a fee based on a percentage of the commitments to HCI IV attributable to UBS's solicitation efforts. HCI also reimbursed UBS for out of pocket expenses during the fundraising period for HCI V (now ended), and HCI paid UBS a fee relating to commitments to HCI V attributable to UBS' solicitation efforts.

The Advisers and/or their affiliates reserve the right to provide various management and financial analysis services to companies in a Private Investment Fund's portfolio and expect to receive compensation from these companies in connection with such services. This compensation will, in many cases, offset a portion of the Management Fees paid by a Private Investment Fund as further described in a Private Investment Fund's partnership agreement. See "Fees and Compensation."

#### **CUSTODY**

HCI generally expects that it will be deemed to have "custody" (within the meaning of Rule 206(4)-2 of the Advisers Act (the "**Custody Rule**")) of funds or securities held in the name of one or more Funds, subject to certain exceptions set forth in the Custody Rule and related guidance, and intends to maintain such assets with the following qualified custodians: Wells Fargo Bank, NA., 1753 Pinnacle Drive, McLean, VA 22102; Principal Bank, 608 2nd Ave S, 9th Floor, Minneapolis, MN 55402; and Canadian Imperial Bank of Commerce, 120 S. LaSalle Street, Chicago, IL 60603, each a qualified custodian.

#### **INVESTMENT DISCRETION**

HCI has discretionary authority to manage investments on behalf of the Funds and the Co-Invest Funds pursuant to their respective Governing Documents and the management agreements described under "Advisory Business." As a general policy, the Advisers do not allow

clients to place limitations on this authority. However, the General Partner reserves the right to enter into "side letter" arrangements with certain limited partners whereby the terms applicable to such limited partner's investment in a Fund will be altered or varied, including, in some cases, the right to opt-out of certain investments for legal, tax, regulatory or other similar reasons.

### **VOTING CLIENT SECURITIES**

In accordance with SEC rules the Advisers have adopted Proxy Voting Policies and Procedures (the "Proxy Policy") to address how they vote proxies for the Funds' portfolio investments. The Proxy Policy seeks to ensure that the Advisers vote proxies (or similar instruments) in the best interest of the Funds, including when there may be material conflicts of interest in voting proxies. The General Partners and their affiliates generally believe their interests are aligned with the Funds' investors through the General Partners' ownership interest in the Funds and therefore will not seek investor approval or direction when voting proxies. In the event, however, there is or may be a conflict of interest between an Adviser and a Fund in voting proxies, the Adviser may address the conflict using several alternatives, including by seeking the approval or concurrence of a Fund's Advisory Committee on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. The Advisers do not consider their personnel's service on portfolio company boards or their receipt of management or other fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies. In addition, the Proxy Policy sets forth certain specific proxy voting guidelines the Advisers follow when voting proxies on behalf of the Funds. Existing or prospective clients (or Fund investors) may request, free of charge, a copy of the Advisers' complete Proxy Policy or information regarding how the Advisers voted proxies for particular portfolio companies, by contacting the Advisers' Chief Compliance Officer at 202-371-0150.

### **FINANCIAL INFORMATION**

HCI does not require prepayment of Management Fees more than six months in advance or have any other events requiring disclosure under this item of the Brochure.