

# HoldCo Asset Management, LP

Part 2A of Form ADV

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March 2024

This brochure provides information about the qualifications and business practices of HoldCo Asset Management, LP (“HoldCo”). If you have any questions about the contents of this brochure, please contact Shan Chang, HoldCo’s Chief Compliance Officer, at [shan@holdcoam.com](mailto:shan@holdcoam.com) or Vik Ghei and Misha Zaitzeff at [vik@holdcoam.com](mailto:vik@holdcoam.com) and [misha@holdcoam.com](mailto:misha@holdcoam.com), respectively. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

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

HoldCo is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training.

## **Item 2 – Material Changes**

Since its other-than-annual updating amendment filed on December 4, 2023, HoldCo is revising this brochure to reflect certain changes, including material changes relating to the launch of HoldCo Opportunities Fund V, L.P., updates to risks involved with investments, and updating the regulatory assets under management as of December 31, 2023. Investors in the Funds (as defined below) may see all of the changes by requesting a blackline of the updated brochure to the prior version.

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#### Item 4 – Advisory Business

**A. The Investment Adviser.** HoldCo is the investment manager for a total of six pooled investment vehicles (each a “Fund” or a “Client” and collectively the “Funds” or the “Clients”).

Vikaran (Vik) Ghei and Michael (Misha) Zaitzeff are the members of the respective general partners of HoldCo and the Funds. Currently, HoldCo has seven employees, four of whom perform investment advisory functions and none of whom are registered representatives of a broker-dealer. Mr. Ghei and Mr. Zaitzeff are not, and have never been, HoldCo employees.

HoldCo is a Delaware limited partnership and an investment adviser headquartered in Fort Lauderdale, Florida. HoldCo was founded in December 2013 and serves as the sole investment manager to six (6) pooled investment vehicles. The Funds are as follows with the general partner for each in parentheses: HoldCo Opportunities Fund II, L.P. (VM GP IV LLC), HH HoldCo Co-Investment Fund, L.P. (VM GP V LLC), HoldCo Co-Investment Fund II, L.P. (VM GP VI LLC), HoldCo Opportunities Fund IV, L.P. (VM GP IX LLC), HoldCo Opportunities Fund V, L.P. (VM GP X LLC), and HOF III Liquidating Partnership LP (VM GP VII LLC).

HoldCo Opportunities Fund II, L.P., HoldCo Opportunities Fund IV, L.P., HoldCo Opportunities Fund V, L.P., and HOF III Liquidating Partnership LP (“HOF III”) are managed on a fully discretionary basis. HH HoldCo Co-Investment Fund, L.P. and HoldCo Co-Investment Fund II, L.P. are not managed on a fully discretionary basis (*i.e.*, new investments require the consent of limited partners, but post-investment oversight and sale decisions do not). All of the Funds are closed to additional limited partners.

As outlined on Schedule A of Form ADV, HoldCo is owned by VM GP II LLC, which serves as its general partner, and by its limited partner, VM Limited Partner I LP. Mr. Ghei and Mr. Zaitzeff are the principal owners of VM GP II LLC and VM Limited Partner I LP.

**B. Types of Advisory Services.** HoldCo’s advisory services are limited to acting as investment manager to the Funds, which are pooled investment vehicles. The investment objective of the Funds is to generate positive absolute returns, while minimizing the risk of loss of invested capital. The Funds seek to achieve this investment objective through opportunistic investments across a broad investment mandate. HoldCo generally employs a fundamental, value-driven investment approach in selecting investments on behalf of the Funds. The Funds focus on various investment strategies, including distressed, event-driven, and special situations strategies. These strategies are discussed in greater detail in each Fund’s offering documents. A Fund may pursue other investment strategies if they fall within the investment mandate for the Fund. HoldCo believes that it is favorable to retain flexibility in allocating capital so as to take advantage of attractive investment opportunities as they arise.

**C. Tailored Advice and Investment Restrictions.** HoldCo generally utilizes similar strategies for each of the Funds but maintains discretion to tailor its advisory services to the specific needs of a Fund when deemed necessary. HoldCo’s advisory services to the Funds are outlined in various governing documents such as limited partnership agreements, private placement memoranda, investment management agreements and other applicable offering documents. These documents outline appropriate investment criteria and investment restrictions and limitations.

**D. Wrap Fee Programs.** HoldCo does not participate in wrap fee programs.

**E. Client Assets Under Management.** As of December 31, 2023, HoldCo’s total “regulatory assets under management” were \$2,390,092,000. Of this amount, HoldCo managed \$2,386,415,000 on a discretionary basis and \$3,677,000 on a non-discretionary basis.

## Item 5 – Fees and Compensation

**A.** HoldCo receives management fees based on a percentage of committed capital (the “Management Fee”) from HoldCo Opportunities Fund II, L.P. during its investment period and, after the expiration of the investment period, based on deployed capital plus a portion of remaining capital reserved for follow on investments. None of the other Funds currently pay management fees. Incentive allocations (“Performance Compensation”) are charged to the Funds (other than HOF III) based on investment performance achieved for each Fund (subject to hurdle rates and with “catch-up” provisions).

The fees and expenses applicable to each Fund are set forth in detail in the respective Fund’s offering documents, limited partnership agreements, investment management agreements and other operative documents. However, all fees are subject to negotiation. Additionally, HoldCo has entered, and may in the future enter, into agreements, such as side letters, with underlying investors in the Funds that provide for terms, including Management Fees or Performance Compensation, that are more favorable than the terms provided to other underlying investors in the Funds.

**B.** HoldCo Opportunities Fund II, L.P. pays its Management Fee to HoldCo quarterly from its assets. Performance Compensation, when earned, is deducted from a Fund’s distribution proceeds when such Fund makes carried interest distributions to its limited partners, provided that certain other conditions have been met.

**C.** In addition to the fees and allocations described above, the Funds may also incur and bear the cost of (i) investment-related expenses, including, but not limited to, brokerage commissions, clearing and settlement charges, custodial fees, interest expense, consulting and professional fees relating to particular investments or contemplated investments, investment-related travel and lodging expenses and research-related expenses; (ii) operational expenses, including, but not limited to, legal expenses, accounting; audit and tax preparation expenses, insurance premiums; fees for each Fund’s Administrator; and other similar expenses; and (iii) organizational expenses, including, but not limited to, expenses relating to the offer and sale of interests in the Funds, including associated legal expenses.

In certain circumstances, expenses are allocated from time to time among the Funds on a basis that HoldCo considers equitable based on the relevant facts and circumstances and in accordance with its current expense allocation policy.

HH HoldCo Co-Investment Fund, L.P., HoldCo Co-Investment Fund II, L.P, and any future co-invest vehicles, will not bear investment expenses related to any unconsummated investment (sometimes referred to as “broken deal expenses”), to the extent that such investment was also to be allocated to any other Fund advised by HoldCo had such investment been consummated, as further disclosed in the related governing documents for each Fund.

Item 12 further describes the factors that HoldCo considers in selecting or recommending broker-dealers for Client transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

**D.** HoldCo Opportunities Fund II, L.P. pays HoldCo a Management Fee quarterly in advance. If this Fund terminates prior to the end of a quarter for which a Management Fee has been pre-paid, any excess fees will be returned to the Fund.

**E.** Neither HoldCo nor any of its supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

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

HoldCo has entered into agreements with each of the Funds with respect to the payment of Performance Compensation (other than HOF III). The manner in which Performance Compensation is paid is set forth in each Fund’s respective offering and governing documents, such as limited partnership agreements. Performance Compensation is paid only once a Fund realizes gains and is not paid based on unrealized capital gains or losses.

The existence of the Performance Compensation arrangements may create an incentive for HoldCo to seek more speculative investments on behalf of the Funds than would otherwise be the case in the absence of such performance-based compensation. In addition, due to the method of calculating the Performance Compensation, the amounts paid to the general partner may be affected by the timing of dispositions and other factors which are within the control of HoldCo.

In the allocation of investment opportunities, performance-based compensation arrangements may create an incentive to favor Funds which pay greater performance-based compensation over Funds which pay less. HoldCo maintains an allocation policy that dictates how investments are allocated among the Funds, which was negotiated with the investors of each Fund and is set forth in the applicable documents governing the Funds. HoldCo endeavors to allocate investments among the Funds in a fair and equitable manner and in accordance with its allocation policy.

As discussed in Item 5.A, HoldCo has entered, and may in the future enter, into side letter agreements with certain underlying investors of the Funds that may provide for terms, including with respect to Performance Compensation, that are more favorable than the terms provided to other underlying investors in the Funds.

## **Item 7 – Types of Clients**

HoldCo provides investment advice to private funds, each of which is a privately-offered pooled investment vehicle. The interests in the Funds managed by HoldCo were offered in private placements, and in reliance on Section 3(c)(7) of the Investment Company Act of 1940, as amended (the “Company Act”), to persons who are “qualified purchasers” as defined under the Company Act, and who are subject to certain other conditions, which are set forth in the offering documents for the Funds. Typically, HoldCo generally requires minimum investment amounts for limited partners of the Funds, which amounts are outlined in the offering documents of each respective Fund. Minimum investments are negotiable at HoldCo’s discretion.

HoldCo does not provide investment advice to separately managed accounts, individuals, trusts, investment companies, or pension plans.

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

**A.** Each Fund’s general investment objective is to generate positive absolute returns while minimizing the risk of loss of invested capital. HoldCo will seek to achieve this investment objective through opportunistic investments across an extremely broad investment mandate described below. HoldCo will generally employ a fundamental, value-driven investment approach in selecting investments on behalf of the Funds. HoldCo’s investment mandate is broad, however, and HoldCo may invest anywhere in an entity’s capital structure, including in debt or equity, and in both foreign and domestic assets. HoldCo believes that it is favorable to retain this flexibility to take advantage of attractive investment opportunities as they arise. However, investing in securities or real assets involves risk of loss that investors in the Funds should be prepared to bear.

In analyzing investments, HoldCo generally utilizes a fundamental, “bottoms-up” investment process. To determine whether a specific investment meets a Fund’s investment criteria, HoldCo will typically evaluate sources of value, the relationship of price to book value, and future cash flows, among other things. HoldCo will also typically examine the capital structure of an issuer with the goal of identifying the security or instrument that presents the most favorable risk/reward profile. HoldCo also seeks to understand possible future outcomes as well as possible events that could have a significant impact on an investment’s overall returns, including what legal rights and remedies are afforded to the holders of various securities. HoldCo will also seek to understand the risk and sources of upside potential in each given investment and ensure that the position’s size is appropriate in light of the size and composition of committed capital and the overall portfolio.

It is anticipated that the Funds will be exposed to a variety of asset classes and geographies. HoldCo has no formulaic criteria as to asset type, asset size, liquidity, geography, earnings, or industry that would by itself disqualify an investment. Moreover, the holding period for the Funds’ investments may vary greatly with multi-year holding periods at the long end down to periods that are less than a year. Certain Funds provide for an investment limit in a single issuer, with limits based upon aggregate capital commitments.

Specifically, HoldCo invests in new money or secondary market investments in or related to any geographic location (both foreign and domestic) which may take the form of, without limitation, loans, debt, hybrid securities (including trust preferred securities), equity, direct interests, or other interests in:

- Financial institutions, including without limitation banks, insurance companies, and real estate investment trusts (“REITs”), and any asset held by such financial institutions;
- Structured financial products, including without limitation collateralized debt obligations and asset-backed securities, and any asset held by entities related to such structured financial products; and
- Stressed, distressed, and special situation investments across all issuer and asset types including, without limitation, investments that may involve any of the following characteristics: bankruptcy, insolvency, or liquidation; stressed and distressed issuers; extraordinary corporate events; complex operating businesses, capital structures and securities; transitions in credit quality; legal and regulatory changes or challenges; limited research coverage; and non-investment grade or non-rated securities.

From time to time, the Funds take a directional short position in credit or equity, including through the use of derivatives, either to serve as a hedge against an existing long position or in connection with a directional investment thesis.

***Regardless of the strategy employed, investing in securities involves a risk of loss, including the loss of capital. Each Fund and each investor and potential investor in the Funds should be prepared to bear such risk. The offering documents for each Fund set forth the Risk Factors applicable to the Fund. The following summary of Certain Investment Risk Factors is qualified in its entirety by reference to the applicable offering documents for each Fund and the descriptions of the Risk Factors contained therein.***

## **B. Certain Investment Risk Factors of the Funds**

As described above, because HoldCo’s investment mandate is extremely broad and HoldCo maintains an opportunistic investment outlook, at any time HoldCo may invest in new asset classes and investment types and may use a variety of hedging instruments not described in this section. Each investor and potential investor should review the offering documents for each Fund, especially the Risk Factors applicable to each Fund.

**Investment Complexity.** As an element of HoldCo's investment style, the Funds pursue unusually complex investment opportunities. This can often take the form of substantial business, regulatory or legal complexity that would deter other investment managers. HoldCo's, and consequently the Funds', tolerance for complexity presents risk, as such transactions can be more difficult, expensive, and time-consuming to finance and execute; it can be more difficult to manage or realize value from the assets acquired in such transactions; and such transactions sometimes entail a higher level of regulatory scrutiny or a greater risk of contingent liabilities. Any of these risks could harm the Funds' performance.

**Illiquidity of Investments.** The Funds invest a significant amount of their capital in securities, loans or other assets for which no, or only a limited, market exists or that are subject to legal or other restrictions on transfer. Moreover, HoldCo anticipates that certain investments may be sourced directly through private transactions and such investments may not have an active market. The market prices, if any, for such assets tend to be volatile, and may fluctuate due to a variety of factors that are inherently difficult to predict, including, but not limited to, changes in interest rates, prevailing credit spreads, general economic conditions, financial market conditions, domestic or international economic or political events, developments or trends in any particular industry, and the financial condition of the obligors on the Funds' assets. Accordingly, the Funds may not be able to sell assets when a Fund desires to do so or to realize what HoldCo perceives to be the fair value of its assets in the event of a sale. The sale of illiquid assets and restricted securities often requires considerable time and the incurrence of significant selling expenses. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale. In addition, in times of extreme market disruption, there may be no market at all for one or more of the asset classes held by the Funds, potentially resulting in the inability of the Funds to dispose of their assets for an indefinite period of time.

**Investments That Are Junior.** In certain cases, the companies in which a Fund invests have indebtedness or equity securities, or may be permitted to incur indebtedness or to issue equity securities, that rank senior to the Fund's investment. By their terms, such instruments may provide that their holders are entitled to receive payments of dividends, interest, or principal on or before the dates on which payments are to be made in respect of the Fund's investment. Also, in the event of insolvency, liquidation, dissolution, reorganization, or bankruptcy of a company in which an investment is made, holders of securities ranking senior to the Fund's investment would typically be entitled to receive payment in full before distributions could be made in respect of the Fund's investment. After repaying senior security holders, the company may not have any remaining assets to use for repaying amounts owed in respect of the investment. If any assets remain, holders of claims that rank equally with the investment would be entitled to share on an equal and ratable basis in distributions that are made from those assets. Also, during periods of financial distress or following an insolvency, the ability of the Fund to influence a company's affairs and to take actions to protect their investments may be substantially less than that of the senior creditors.

**Uncertain Exit Strategies.** Due to the illiquid nature of certain of the Funds' current positions (and positions which may be acquired in the future) as well as the uncertainties of the reorganization and active management process, HoldCo is unable to predict with confidence what the exit strategy will ultimately be for any given position, or that one will be available. Exit strategies which appear to be viable when an investment is initiated may be precluded by the time the investment is ready to be realized due to economic, legal, political, or other factors.

**Availability of Investments and Execution Risks.** There are risks and uncertainties with respect to the availability and selection of investments. Investors in the Funds will be relying on the ability of HoldCo to identify, structure, consummate, leverage, manage and realize returns on attractive investments. The business of identifying and structuring investments is highly competitive and involves a high degree of uncertainty. No assurance can be given that the Funds will be successful in obtaining suitable investments. Even if an attractive investment opportunity is identified, there is no certainty that a Fund will be permitted to invest in such opportunity (or invest in such opportunity to the fullest extent desired).



Accordingly, there can be no assurance that the Funds will be able to identify and complete attractive investments. Even if such investments are identified, there can be no assurance that they will not decline in value considerably while held by the relevant Fund, including, without limitation, as a result of a drop in a reference rate or other interest rates (including to levels below 0%), extended weakness in the credit or other markets, or other circumstances. In addition, competition for investment opportunities may have the effect of increasing costs, thereby reducing investment returns to the Funds. In addition, there may be significant execution risk in the Funds' investment programs. Some of these execution risks include, but are not limited to, investments that are dependent on a corporate restructuring occurring (for example a bankruptcy plan, a voluntary exchange of securities, a demutualization, or other restructuring), the ability to convince holders of securities or other interests to sell, and obtaining consent from the board, management, or stakeholders of a company to transact. The Funds at times invest in complex, heavily negotiated transactions, and there is additional risk that such investments will take a substantial amount of time to execute, and have terms associated with them that may ultimately prove to be unfavorable to the Funds.

**Competition for Investments.** The Funds compete for, among other things, investment opportunities. The competition for investment opportunities is based primarily on the pricing, terms and structure of a proposed investment and certainty of execution. A number of factors serve to increase competitive risks:

- A number of competitors in some of the areas in which the Funds invest or try to invest may have greater financial, technical, marketing, and other resources and more personnel, and, in the case of some asset classes or geographic regions, longer operating histories, more established relationships, greater expertise or better reputation;
- Some of these competitors may also have a lower cost of capital and access to funding sources that are not available to the Funds, which may create competitive disadvantages with respect to investment opportunities;
- Some competitors may have higher risk tolerances, different risk assessments or lower return thresholds, which could allow them to consider a wider variety of investments and to bid more aggressively for investments;
- Some competitors may be subject to less regulation or less regulatory scrutiny and accordingly may have more flexibility to undertake and execute certain businesses or investments than the Funds do and/or bear less expense to comply with such regulations than the Funds; and
- There are relatively few barriers to entry impeding the formation of new funds, including a relatively low cost of entering these businesses, and the successful efforts of new entrants into the Funds' various lines of business, including major commercial and investment banks and other financial institutions, have resulted in increased competition.

The Funds may lose investment opportunities if they do not match investment prices, structures and terms offered by competitors. Alternatively, the Funds may experience decreased investment returns and increased risks of loss if it matches investment prices, structures and terms offered by competitors. This competitive pressure could adversely affect the Funds' ability to make successful investments, which would adversely impact the Funds.

**Small and Mid-Cap Company Investments.** The Funds invest in small- and mid-capitalization companies, which may expose the Funds to greater investment risks. Investments in these companies may present greater opportunities for returns but also involve greater risks than are customarily associated with investments in more established and larger capitalized companies. The securities of less seasoned and

smaller capitalized companies may have no trading market. If one exists, the securities are often traded in the over-the-counter market and have fewer market makers and wider price spreads, which may in turn result in making the Funds' investments more vulnerable to adverse general market or economic developments than would investments in larger, more established companies.

**Concentration of Investments.** Although the Funds are subject to certain limitations on their investments, which are set forth in their respective offering documents, a Fund's assets may become concentrated in particular asset classes, strategies, issuers, geographies, and markets. Accordingly, the Funds may not enjoy the reduced risks of a broadly diversified portfolio, which could cause the Funds' investments to be more susceptible to particular economic, political, regulatory, technological or industry conditions or occurrences compared with a fund, or a portfolio of funds, that is more diversified or that has a broader industry focus. As a result, the aggregate return of a Fund's portfolio may be volatile and may be affected substantially by the performance of only one or a few holdings. Additionally, HoldCo may not be able, and is not obligated, to reduce or hedge such risks.

**Valuation.** Investments of the Funds which HoldCo believes are fundamentally undervalued or overvalued may not ultimately be valued in the capital markets at prices and/or within the timeframe that HoldCo anticipates. In particular, purchasing securities at prices which HoldCo believes to be distressed or below fair value is no guarantee that the price of such securities will not decline even further. Further, because there is significant uncertainty in the valuation of, or in the stability of the value of, illiquid investments, a Fund's valuation of an investment may not necessarily reflect the prices that would actually be obtained by the Fund when such investment is realized. For example, there may be liabilities such as unknown or uncertain tax exposures with respect to investments, especially those outside of the United States, which may not be fully reflected in the Funds' valuations.

**Effect of Tax Laws on Investments.** The Funds may make certain investment decisions that are, at least in part, based on HoldCo's valuation of certain tax assets, such as net operating loss carry-forwards and the preservation of such tax asset through, for example, the exception under 382(l)(5) of the tax code. Tax laws and regulations are complicated, subject to governmental review and change, and it is possible that such tax assets ultimately will not have the value that HoldCo anticipated at the time HoldCo makes such investment decisions.

**Hedging.** While the Funds employ hedging strategies for certain risks, there is no requirement for the Funds to employ hedging strategies and there is a significant possibility they will not employ any hedging strategies. Any lack of hedging may subject the Funds to additional risks (interest rate risk, credit risk, and general market risk, among others) that could have been mitigated by hedging. Even if the Funds do engage in hedging transactions, such transactions may reduce certain risks but do not eliminate potential losses arising from fluctuations in the value of the Funds' portfolio investments or related securities, currencies, interest rates or other assets, and entail other risks. In addition, unanticipated changes in securities or currency prices or other rates may result in a poorer overall performance for a party than if it had not entered into any hedging transactions. In the event of an imperfect correlation between a hedging transaction and the portfolio position it is intended to protect, the desired protection may not be obtained and a party may be exposed to risk of loss. In addition, it is not possible to hedge fully or perfectly against any particular risk. Moreover, hedging transactions may not be available at all or at a reasonable cost to the Funds.

While hedging arrangements may reduce certain risks, hedging itself may entail certain other risks. Hedging may require the posting of cash collateral at a time when a Fund has insufficient cash or illiquid assets such that the posting of the cash is either impossible or requires the sale of assets at prices that do not reflect their underlying value. Moreover, these hedging arrangements may generate significant transaction costs, including potential tax costs, which would reduce the returns generated by an investment.

**Derivative Instruments.** Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, credit risk, legal risk and operations risk. The regulatory and tax environment for derivative instruments in which the Funds may participate is evolving, and changes in the regulation or taxation of such securities may have a material adverse effect on the Funds.

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

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

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

**Exotic Options.** Exotic options are typically, but not always, traded over-the-counter ("OTC"). OTC contracts may not trade in a liquid market and pricing may be opaque. The illiquidity of these markets can be exacerbated in times of market stress. The Funds may incur substantial costs entering into and exiting positions that could have a material impact on performance. Exotic options may be subject to a higher degree of pricing risk as demonstrated by instances in which different counterparties in the market employ different valuation and pricing methodologies to the same exotic option. Because exotic options can often be highly customized, there is lower visibility with respect to the pricing and valuation of these instruments.

Exotic options may be subject to high levels of price volatility. Exotic options may be subject to higher levels of model risk than commonly traded options because standard models are not able to adequately capture or predict the risks associated with the exotic options. The additional features incorporated by exotic options require additional judgments regarding the likelihood of certain conditions being satisfied, any one of which can result in loss if made incorrectly. An OTC option may be closed out only with the counterparty, although either party may engage in an offsetting transaction that puts that party in the same economic position as if it had closed out the option with the counterparty; however, the exposure to counterparty risk may differ. OTC options generally involve greater credit and counterparty risk than exchange-traded options.

**Shorting.** Short selling involves selling securities which are not owned and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which a Fund will engage in short sales depends upon HoldCo's investment strategy and opportunities. A short sale creates the risk of a theoretically unlimited loss in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Fund of buying those securities to cover the short position. There can be no assurance that a Fund will be able to maintain the ability to borrow securities sold short. In such cases, the Fund can be "bought in" (i.e., forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

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

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

If there is a default by a counterparty, the applicable Fund under most normal circumstances will have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in the net asset value of the Fund being less than if it had not entered into the transaction. Furthermore, there is a risk that any of such counterparties could become insolvent and/or the subject of insolvency proceedings. In such case, the recovery of the Fund's securities from such counterparty or the payment of claims therefor may be significantly delayed and it may recover substantially less than the full value of the securities entrusted to such counterparty. In addition, there are a number of proposed rules that, if they were to go into effect, may impact the laws that apply to insolvency proceeding and may impact whether the Fund may terminate its agreement with an insolvent counterparty.

Collateral that a Fund posts to its counterparties that is not segregated with a third-party custodian may not have the benefit of customer-protected “segregation” of such funds. In the event that a counterparty were to become insolvent, the Fund may become subject to the risk that it may not receive the return of its collateral or that the collateral may take some time to return.

In addition, the Funds use counterparties located in jurisdictions outside the United States. Such local counterparties usually are subject to laws and regulations in non-U.S. jurisdictions that are designed to protect customers in the event of their insolvency. However, the practical effect of these laws and their application to a Fund’s assets are subject to substantial limitations and uncertainties. Because of the range of possible factual scenarios involving the insolvency of a counterparty and the potentially large number of entities and jurisdictions that may be involved, it is impossible to generalize about the effect of such an insolvency on the Fund and its assets. Investors should assume that the insolvency of any such counterparty would result in significant delays in recovering the Fund’s securities from or the payment of claims therefor by such counterparty and a loss to the Fund, which could be material.

**Central Clearing.** In order to mitigate counterparty risk and systemic risk in general, various U.S. and international regulatory initiatives require certain derivatives to be cleared through a clearinghouse. Trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearinghouse, the FCM, as well as possible SEC or CFTC mandated margin requirements.

As products become more standardized in order to be cleared, standardized derivatives may mean risks may not be hedged or an investment view may not be expressed as well as it would using customizable derivatives available in the over-the-counter markets. Compared to the OTC derivatives market, there may be more onerous and more frequent (daily or even intraday) margin calls from both the clearinghouse and the FCM. The dynamic nature of the margin models utilized by the clearinghouses and the fact that the margin models might be changed at any time may subject the Funds to an unexpected increase in collateral obligations by clearinghouses during a volatile market environment which could have a detrimental effect. Clearinghouses also limit collateral that they will accept to cash, U.S. Treasuries and, in some cases, other highly rated sovereign and private debt instruments, which may require the Fund to borrow eligible securities from a dealer to meet margin calls and raise the costs of cleared trades to the Fund. The models used by OTC derivative dealers to apply margin are generally tailored for the risk of each fund and fund manager. In contrast, the clearinghouse margin model is applied across all types of counterparties and there is no analysis of individual counterparty risks. This may mean that the clearinghouse margin model may be less fluid. It may mean that it is also more expensive overall for a Fund than if specific factors of the Fund were considered.

Also, each clearinghouse only covers a limited range of products and a Fund may have to spread its derivative portfolio across multiple clearinghouses, which in turn reduces the benefits of netting that derivatives users rely on to mitigate counterparty risk.

Although standardized clearing for derivatives is intended to reduce risk (for instance, they may reduce the counterparty risk to the dealers to which a Fund would be exposed under OTC derivatives), standardized clearing transfers risk of default from the over-the-counter derivatives dealer to the central clearinghouse, which may increase systemic risk, potentially more so than a failure by an OTC derivatives counterparty. The failure of a clearinghouse could have a significant impact on the financial system. Even if a clearinghouse does not fail, large losses could force significant capital calls on member firms during a financial crisis, which could lead member firms to default, worsening the crisis.

Applicable regulations may also require a Fund to make public information regarding its swaps volume, position size and/or trades, which could detrimentally impact a Fund’s ability to achieve its investment objectives.

**Non-Controlling Interests in Companies.** The Funds frequently hold non-controlling interests in companies in which they invest. The success of the Funds' investments in such companies will depend in part on the consent of existing management and directors, and other shareholders (especially controlling shareholders). Because the Funds will not control such companies, the ability to exit from such investments may be limited. Additionally, the Funds are likely to have a reduced ability to influence management of such companies. A Fund, through HoldCo, may also have disagreements with controlling shareholders over the strategy and operations of such companies. As a result of the foregoing, the Funds' investments in such companies may perform poorly. The likelihood of holding non-controlling interests is increased when investing in regulated institutions such as banks and insurance companies. For example, since HoldCo intends to manage the investments of each Fund in a manner that would prevent the Fund from becoming a bank holding company, there are limitations regarding the amount of control the Fund can have in such bank institutions, including limitations on equity ownership and the appointment of directors.

**Third Party Information and Models.** The Funds rely heavily on third party data and other information that is obtained from various sources—third-party data services providers, publicly-available information, information obtained from market participants, and information received from companies, among others. Although the Funds, through HoldCo, will evaluate all such information and may seek independent corroboration when HoldCo considers it appropriate and when independent corroboration is reasonably available, the Funds often will not be in a position to confirm the completeness, genuineness or accuracy of such information and, in some cases, complete and accurate information is not available. The Funds' investments rely on the accuracy of such information and they may not perform as expected if such information is inaccurate. The Funds' investments will also depend on HoldCo's analytical models. All models ultimately depend on HoldCo's judgment and the assumptions embedded in the models. To the extent that, with respect to any investment, the judgment or assumptions are incorrect, the Funds could suffer losses. Moreover, HoldCo has compiled certain data that it believes to be highly proprietary and not widely disseminated. To the extent that such data become more widely available, there is risk HoldCo will lose some of its proprietary edge, which could result in lower performance by the Funds.

**Reliance on Certain Relationships.** HoldCo has relationships with intermediaries, financial institutions, investment bankers, commercial bankers, financial advisers, attorneys, accountants, consultants, and other individuals within their networks. Specifically, HoldCo has unique relationships with certain parties associated with issuers of collateralized debt obligations ("CDOs"), including CDO investors, CDO indenture trustees, indenture trustees of trust preferred securities ("TruPS"), CDO managers, and certain professionals who provide services to these parties. HoldCo's ability to use its network of relationships is vital to, among other things, sourcing investment opportunities. Since HoldCo expects that many investments may be sourced away from traditional broker-dealers trading desks, these relationships are of particular importance. Thus, if HoldCo fails to maintain its existing relationships or develop new relationships, the Funds' investment performance may suffer.

**Vulnerability to Interest Rate Changes.** The Funds invest in fixed-rate debt or similar securities or instruments, which will decline in value when interest rates rise. Also, because the value of real estate and certain other assets often declines when interest rates rise, the value of some of the collateral underlying the securities in which the Funds invest may decline at the same time as the securities themselves. Therefore, rising interest rates could substantially reduce the value of the Funds' investments and the price the Funds would receive if they tried to dispose of such investments.

**Contingent Liabilities on Disposition of Investments.** In connection with the disposition of a Fund's investment in a portfolio company, the Fund may be required to make representations about the business and financial affairs of such portfolio company typical of those made in connection with the sale of a business. The Fund also may be required to indemnify the purchasers of such Fund's investment to the extent that any such representations are inaccurate or with respect to certain potential liabilities. These

arrangements may result in the incurrence of contingent liabilities for which reserves or escrows may need to be established.

**Activist Investing.** Some investments made by the Funds are ones where HoldCo believes significant activism is necessary in order to “unlock” value. Such activism may require, among other things, (1) identifying companies where investment returns can be achieved through corporate and/or strategic action, (2) driving forward a corporate restructuring (for example, among other things, a sale/merger transaction, a liquidation, a bankruptcy plan, a voluntary exchange of securities, a demutualization, or other restructuring), (3) garnering consent of a company’s board of directors, officers, shareholders, and other stakeholders, (4) enforcing rights through litigation, or (5) changing the corporate governance of a company. The costs in time, resources and capital involved in such activist investments depend on the circumstances, which are only in part within the applicable Fund’s control, and may be significant, particularly if litigation against the Fund and/or HoldCo ensues.

In order to implement any actions deemed necessary to maximize value, HoldCo, or other members of the investing group, may work with the management team of the target company to design an alternate strategic plan and assist them in its execution and may secure the appointment of persons selected by HoldCo to the company’s management team or board of directors. HoldCo’s Funds may also initiate investor actions (including those that may be opposed by company management). Such investor actions may include, among other things, re-orienting management’s operational focus, initiating the sale of the company (or one or more of its divisions) to a third party, or an acquisition by the Fund or other members of the investing group. In order to accomplish the foregoing, HoldCo may cause the Fund to acquire a “control” position in the company’s securities. The success of a Fund’s activist investment strategy may require, among other things: (i) that HoldCo properly identifies portfolio companies whose equity prices can be improved through corporate and/or strategic action; (ii) that the applicable Fund acquire sufficient securities of such portfolio companies at a sufficiently attractive price; (iii) a positive response by the management of portfolio companies to shareholder engagement; (iv) a positive response by other shareholders to shareholder activism and the Fund’s proposals; and (v) a positive response by the markets to any actions taken by portfolio companies in response to shareholder activism. None of the foregoing can be assured.

Corporate governance strategies may prove ineffective for a variety of reasons, including: (i) opposition of the management or investors of the subject company, which may result in litigation and may erode, rather than increase, the value of the subject company’s securities; (ii) intervention of a governmental agency; (iii) efforts by the subject company to pursue a “defensive” strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) market conditions resulting in material changes in prices; (v) the presence of corporate governance mechanisms such as staggered boards, poison pills and classes of stock with increased voting rights; and (vi) the necessity for compliance with applicable securities laws. In addition, opponents of a proposed corporate governance change may seek to involve regulatory agencies in investigating the transaction or the Funds and such regulatory agencies may independently investigate the participants in a transaction, including the Funds, as to compliance with securities or other laws. Furthermore, successful execution of a corporate governance strategy may depend on the active cooperation of investors and others with an interest in the subject company. Some shareholders may have interests which diverge significantly from those of the Fund, and some of those parties may be indifferent to the proposed changes. Moreover, securities that HoldCo believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the timeframe HoldCo anticipates, even if a corporate governance strategy is successfully implemented. Even if the prices for a subject company’s securities have increased, no guarantee can be made that there will be sufficient liquidity in the markets to allow the Funds to dispose of all or any of its securities therein or to realize any increase in the price of such securities.

Activism, restructurings, and negotiations related to distressed securities, bank loans and other investments of the Fund can be contentious and adversarial. It is by no means unusual for participants to use the threat of, as well as actual, litigation as a negotiating technique. It is possible that HoldCo or a Fund may be named as defendants in proceedings. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments will generally be borne by the applicable Fund and may reduce performance. Moreover, HoldCo expects that its investment strategy generally may require the use of significant legal resources, such as bankruptcy, litigation, regulatory (for example bank and insurance), and corporate counsel. These legal costs may reduce the performance of a Fund. Because much of a Fund's strategy involves pursuing smaller "off-the-run" strategies, risk related to legal resources may be exacerbated because such legal resources may be, in percentage terms, a greater component than in larger situations where costs can be borne by a larger asset base. For example, the costs of developing a bankruptcy plan of reorganization in a small company with fewer assets will likely be a larger expense in percentage terms than in a large company where expenses can be spread over a larger asset base. As a result of the foregoing, HoldCo relies on obtaining legal services on a cost-effective basis as part of its strategy, and to the extent HoldCo is not able to do so, this may reduce the performance of the Fund. In addition, expenses related to the recruitment and retention of board members, proxy solicitors, public relations firms, executives and other individuals providing business assistance to HoldCo in connection with an activist campaign (including, for example, consultants and corporate whistle-blowers) or other transactional costs, will be borne by the applicable Fund. Such expenses may reduce returns or result in losses.

**Regulatory Restrictions on the Ownership of Securities.** The investment strategies pursued by a Fund may be affected by applicable U.S. state and federal laws and regulations governing the beneficial ownership of securities, which may inhibit a Fund's ability to freely acquire and dispose of certain securities. Should such Fund be affected by such rules and regulations, it may not be able to transact in ways that would realize value for the Fund.

In addition, any changes to government regulations could make some or all forms of activist strategies unlawful or impractical. Accordingly, such changes, if any, could have an adverse effect on the ability of a Fund to achieve its investment objective.

**Litigation.** Reorganizations and, more generally, negotiations related to distressed securities, bank loans and other investments of the Funds can be contentious and adversarial. It is by no means unusual for participants in such investments to use the threat of, as well as actual, litigation as a negotiating technique. HoldCo and any of the Funds, and perhaps certain of their larger investors, may be named as defendants in civil proceedings, regardless of whether such proceedings are meritorious. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by the Funds and would reduce net assets or could require investors in the Funds to return distributed capital and earnings.

If any civil or criminal lawsuits resulted in a finding of substantial legal liability or culpability, the lawsuit could materially and adversely affect a Fund's business, results of operations and financial condition or cause significant reputational harm, which could seriously impact the Fund's ability to conduct its business. The Funds and HoldCo depend to a large extent on business relationships and a reputation for integrity to source investment opportunities for the Funds. As a result, allegations of improper conduct by private litigants or regulators, whether the ultimate outcome is favorable or unfavorable to the applicable Fund, as well as negative publicity and press speculation about the Fund or its investment activities, whether or not valid, may harm the applicable Fund's and HoldCo's reputation, which may be more damaging to the applicable Fund than to other types of businesses.

**Distressed Investments.** The Funds invest in issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and



liquidation proceedings and in securities that are non-performing or in default. These may be particularly risky investments although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies' securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to a Fund's investment in any instrument, and a significant portion of the obligations and securities in which a Fund invests may be below investment grade or have no rating. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that HoldCo will correctly evaluate the value of an investment in a distressed issuer or the prospects for a successful reorganization or similar action will be correctly evaluated. In any reorganization or liquidation proceeding relating to a company in which a Fund invests, the Fund may lose its entire investment, may be required to accept cash or securities with a value less than the Fund's original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Fund's investments may not be adequate for the risks assumed.

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals, including regulatory approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security the value of which will be less than the purchase price to a Fund of the security in respect to which such distribution was made.

A Fund's investments in distressed issuers may take various forms including claims, debt and debt-like instruments, equity and equity-like instruments, and loans. All of the foregoing investments may be in the form of newly issued instruments or purchased on a secondary basis.

A Fund's investment program may include investments in bank loans and participations, including through new loan origination. These obligations are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of a Fund to directly enforce its rights with respect to participations. In analyzing each bank loan, a Fund, through HoldCo, compares the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by the relevant Fund. Such loans may also include loans to companies that have filed for protection under Chapter 11 of the U.S. Bankruptcy Code. These debtor-in-possession or "DIP" loans are most often asset-based, revolving working-capital facilities put into place at the outset of a Chapter 11 case to provide the debtor with both immediate cash and the ongoing working capital that will be required during the reorganization process. While such loans are generally less risky than many other types of loans as a result of their seniority in the debtor's capital structure and because their terms have been approved by a bankruptcy court order, it is possible that the debtor's reorganization efforts may fail and the proceeds of the ensuing liquidation of the DIP lender's collateral might be insufficient to repay in full the DIP loan.

Distressed investments may be in small and mid-capitalization issuers that are "off-the-run." These smaller situations have unique risks associated with them including additional illiquidity risk, less experienced management or unsophisticated trustees (such as inexperienced Chapter 7 trustees). These

small, “off-the-run” situations may also be more difficult to source than larger more liquid distressed situations.

**High-Yield Securities and Unrated Debt.** The Funds invest in high-yield securities, below investment grade, or unrated debt. Such securities are generally not exchange-traded and, as a result, these instruments trade in the over-the-counter marketplace, which is less transparent and less liquid than the exchange-traded marketplace. In addition, the Funds invest in bonds of issuers that do not have publicly-traded equity securities, making it more difficult to hedge the risks associated with such investments. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer’s inability to meet timely interest and principal payments. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than higher-rated securities. Companies that issue such securities are often highly leveraged and may not have available to them more traditional methods of financing. It is possible that a major economic recession could severely disrupt the market for such securities and may have an adverse impact on the value of such securities. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default of such securities.

**Loans.** Investing in loans subjects the Funds to the risk of fraud. Of paramount concern in loan transactions is the possibility of material misrepresentation or omission on the part of the borrower. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of the Funds to perfect or effectuate a lien on the collateral securing the loan. The Funds will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to the Funds may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

The Funds also invest in secondary or new issue bank loans and participations, including loans purchased from national or regional banks or non-bank lending companies or loans originated directly by HoldCo which may include, without limitation, commercial loans, mortgages (including residential, office, hotel, restaurant, undeveloped property and other real-estate loans), consumer loans, individual or pools of non-performing loans, and bank debt. These obligations are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors’ rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) with respect to participations, limitations on the ability of the Funds to directly enforce its rights and counterparty credit risk considerations. In analyzing each bank loan or participation, the Funds compare the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by the Funds. The obligor of such loans may include small businesses without audited financials or consumer loans where there are substantial additional rules and regulations involving collections that pose additional risks. Investments in loans pose additional risks that may occur from defective or improper documentation such as improperly perfected security interests. Servicing and collecting on loans, especially stressed or distressed loans, pose additional challenges, and require significant time and expenses, including legal expenses, that may reduce returns or even create losses for the Funds. Such loans may be unsecured or secured by assets whose value has experienced significant diminution. As part of working out and collecting on loans, the Funds may end up holding real assets (such as real estate or other collateral), that require significant time and expense to maintain.

**Equity Securities.** The Funds invest in equity securities and equity derivative securities. Equity securities, unlike debt securities, do not have a stated maturity and it is uncertain when, if ever, the

applicable Fund will receive its invested amounts or expected returns on such investments. The value of these securities generally will vary with the performance of the issuer and movements in the equity markets. As a result, the Funds may suffer losses if it invests in equity instruments of issuers whose performance diverges from HoldCo's expectations or if equity markets generally move in a single direction and the applicable Fund has not hedged against such a general move. The Funds also may be exposed to risks that issuers will not fulfill contractual obligations such as, in the case of convertible securities or private placements, delivering marketable common stock upon conversions of convertible securities and registering restricted securities for public resale. In addition, if the issuer of an equity security becomes insolvent, such equity security may lose most or all of its value.

**Event-Driven Investing and Special Situations.** The Funds pursue opportunities that are either event-driven or other "special situations." HoldCo believes that such investment strategies are attractive because situational complexity and market dynamics can lead to significant price distortions. Special situations are often characterized by (i) extraordinary corporate events; (ii) complex operating businesses, capital structures, and securities; (iii) transitions in credit quality; (iv) legal and regulatory changes; and/or (v) limited research coverage. Investment opportunities in special situations may at times occur in companies in or exiting bankruptcy, spin-offs, rights offerings, liquidations, companies for which litigation is a major asset or liability, misunderstood or underfollowed companies, or other special situations. The complexity inherent in these special situations can introduce uncertainty which HoldCo believes often masks the underlying value of businesses, securities, and other financial instruments. Such uncertainty creates risk profiles that HoldCo believes are often outside the core competencies and mandates of many traditional investment advisers. In addition, HoldCo believes that the collective effect of these dynamics can create exaggerated market activity, which can result in inefficient pricing of assets, securities, and other financial instruments relative to their intrinsic values.

Event-driven and special situation investing may require HoldCo to make predictions about (i) the likelihood that an event will occur and (ii) the impact such event will have on the value of a company's securities. If the event fails to occur or it does not have the foreseen effect, losses can result. For example, the adoption of new business strategies or completion of asset dispositions or debt reduction programs by a company may not be valued as highly by the market as HoldCo had anticipated, resulting in losses. In addition, a company may announce a plan of restructuring which promises to enhance value and fail to implement it, resulting in losses to investors. In liquidations and other forms of corporate reorganization, the risk exists that the reorganization either will be unsuccessful, will be delayed or will result in a distribution of cash or a new security, the value of which will be less than the purchase price to the Funds of the security in respect of which such distribution was made. The consummation of mergers and tender and exchange offers can be prevented or delayed by a variety of factors, including: (i) opposition of the management or stockholders of the target company, which will often result in litigation to enjoin the proposed transaction; (ii) intervention of national or local regulatory agencies or bodies; (iii) efforts by the target company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) in the case of a merger, failure to obtain the necessary stockholder approvals; (v) market conditions resulting in material changes in securities prices; (vi) compliance with any applicable securities laws; and (vii) inability to obtain adequate financing. Because of the inherently speculative nature of event-driven investing, the results of the Funds' operations may be expected to fluctuate from period to period. Accordingly, investors should understand that the results of a particular period will not necessarily be indicative of results that may be expected in future periods.

**Bankruptcy Investments.** The Funds participate in bankruptcy investment opportunities through a variety of structures such as, without limitation, claims, loans, equity interests, or participating as a named new money investor in a plan of reorganization. Investments in bankruptcies are illiquid, generally do not pay interest, and there can be no guarantee that the debtor will ever be able to satisfy the obligation of such claim, loan, or equity interest. The markets for bankruptcy claims are not generally regulated by federal

securities laws or the SEC. Because bankruptcy claims are frequently unsecured, holders of such claims may have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding. In addition, under certain circumstances, payments and distributions may be reclaimed if any such payment is later determined to have been a fraudulent conveyance or a preferential payment. If a Fund is a named new money investor in a bankruptcy plan, there is risk that the plan does not move forward or as time passes, certain events occur that make the investment less attractive than initially anticipated but the Fund still has an obligation to fund. Investing in bankruptcy restructurings may be complicated, resource-intensive, and difficult to execute. Moreover, there is additional risk with respect to bankruptcies in highly regulated institutions such as bank holding companies, including the risk of regulators disapproving of a transaction or the risk of a “run on the bank” for a holding company in bankruptcy while the subsidiary is still an operating depository institution.

Many of the events within a bankruptcy case are adversarial and often beyond the control of the stakeholders. While stakeholders generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions which may be contrary to the interests of the Funds.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and the Funds; is subject to unpredictable and lengthy delays; and during the process, the company’s competitive position may erode, key management may depart, and the company may not be able to invest adequately. In some cases, the company may not be able to reorganize and may be required to liquidate assets.

Furthermore, there are instances where creditors and equityholders lose their ranking and priority as such when they take over management and functional operating control of a debtor. In those cases where a Fund, by virtue of such action, is found to exercise “domination and control” of a debtor, the Fund may lose its priority if the debtor can demonstrate that its business was adversely impacted or other creditors and equityholders were harmed by the Fund.

HoldCo, on behalf of a Fund, may elect to serve on creditors’ committees, equityholders’ committees or other groups to ensure preservation or enhancement of the Funds’ position as a creditor or equityholder. A member of any such committee or group may owe certain obligations generally to all parties similarly situated that the committee represents, and such obligation may conflict with duties owed to the Funds. In addition, if the Funds are represented on a committee or group, they may be restricted or prohibited under applicable law from disposing of or increasing their investments in such company while it continues to be represented on such committee or group.

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

Investing in loans, claims and other debt may subject the Funds to the risk of equitable subordination. Under common law principles that in some cases form the basis for lender liability claims, if a lender (a) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (d) uses its influence as a stockholder to dominate or control a borrower or issuer to the

detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender, claimant or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called “equitable subordination”). The Funds do not intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine; however, because of the nature of the debt obligations, the Funds may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the Fund should be equitably subordinated.

**Investments Across Industries.** The Funds have a broad mandate that permits investing in companies across all industries, and HoldCo may not have experience or expertise across all industries and may not be familiar with particular nuances of making investments across all industries. Further, HoldCo may not perform a thorough enough risk analysis of an industry which could affect the expected performance of an investment. Investments in certain industries may also be considered less liquid.

**Investments in Financial Institutions.** The Funds invest in a variety of public and private financial institutions, including depository institutions (including national, regional and community banks), insurance companies, REITs, business development companies, leasing companies and specialty finance companies, among others, through a variety of instruments including loans, debt and debt-like instruments, or equity and equity-like instruments, many of which may be in various stages of distress.

**Investments in Banks.** The Funds’ investments in financial institutions include investments in regional and community banks. The performance of regional and community banks are affected by many factors including economic and political conditions, broad trends in business and finance, bank regulation and legislation, monetary and fiscal policies, change in interest rates, inflation, market conditions, and confidence in the safety and soundness of the banking system. In addition to being subject to risks that may impact the banking industry, regional and community banks are affected by many factors, including:

- *Liquidity Risk:* The management of a bank must ensure that sufficient funds are available to meet demands of capital providers, depositors, as well as borrowers.
- *Asset Quality and Credit Risk:* The assets of a bank are subject to the creditworthiness of its borrowers as well as the value of the assets securing such loans.
- *Capital Risk:* A bank’s capital position is important to its overall financial condition, serves as a cushion against losses, and closely watched by regulators—to the extent that regulators believe that a particular bank has insufficient capital, it could be placed under FDIC-receivership.
- *Earnings Risk:* Earnings are the primary means for financial institutions to generate capital to support asset growth, to provide for loan losses and to support their ability to pay dividends to stockholders.
- *Management Risk:* The ability of management to identify, measure, monitor and control the risks of an institution’s activities and to ensure a financial institution’s safe, sound and efficient operation in compliance with applicable laws and regulations are critical.
- *Litigation Risk:* Financial institutions face significant legal risks in their businesses, and the volume of claims and amount of damages and penalties claimed in litigation and regulatory proceedings against financial institutions remain high.
- *Market Risk:* The financial institutions in which the Funds invest may be directly and indirectly affected by changes in market conditions including, but not limited to, fluctuations in interest rates, equity and futures prices, changes in the implied volatility of interest rates, and price deterioration or changes in value due to changes in market perception or actual credit quality of the issuer.

- *Competition:* The financial services industry, including the banking sector, is extremely competitive and such pressure may result in negative results in any particular investment.
- *Monetary Policy Risk:* Monetary policies have had, and will continue to have, significant effects on the operations and results of financial institutions. There can be no assurance that a particular financial institution will not experience a material adverse effect, for example with respect to its net interest margin, depending on the interest rate environment.
- *Regulatory Risk:* Banks are subject to various state and federal banking regulations that are subject to change, and such regulations, or change in regulations, may have a negative adverse impact on such institutions.

The Funds invest in a variety of different instruments issued by banks including loans, debt (senior, subordinated, or TruPS), preferred equity, and common equity. Certain securities, particularly debt securities and certain hybrid capital instruments, may be long-dated in nature and may contain provisions that enable the issuing institution to defer payment of interest or dividends without resulting in bankruptcy or default. Furthermore, even though an institution has the financial capacity to make interest or dividend payments, regulatory approval may be withheld to make such payment, and in the absence of such approval, the issuing institution will not be able to make such payment to the Funds. The longer-term nature of these instruments limits their liquidity and may increase the risk of holding these investments. Investments in holding companies generally subject investors to increased risks because holding companies generally hold all their assets in their subsidiaries and are dependent on distributions from their subsidiaries to service their interest obligations and for ultimate principal repayment. In the event of a default or a bankruptcy, holders of securities issued by holding companies may suffer from increased losses.

Any investment in a depository institution has the risk of losses that may occur if the bank fails, and investments in banks that are in worse financial condition than a typical bank will have greater than average risk of a bank failure. In the case of a bank failure, for example through an FDIC-receivership, there is additional risk that the Funds' investment may experience losses, including a total loss of investment. Moreover, in periods of economic stress, the bank default rate may increase, which may have an adverse effect on the Funds' investments.

**Bank Regulations.** The banking institutions in which the Funds invest are subject to substantial regulations that could adversely affect their ability to operate and thus affect the value of a Fund's investments. Moreover, the Funds may become subject to adverse current or future banking regulations. None of the Funds are, or intend to become, a bank holding company ("BHC"). As such, there are significant restrictions in the amount of control, size, and type of investment the Funds may hold. For example, depending on the size of a Fund's investment in a BHC (which must be less than 25% of the BHC's outstanding voting equity securities and less than one-third of the BHC's outstanding total equity based on current regulations), the Fund will be limited in the number of board seats it may appoint, the amount of economic equity ownership it may hold, the amount of voting equity it may hold, the amount of influence it may exert over bank management, and amount of collaboration it may engage in with other investors (see "Non-Controlling Interests in Companies" for additional risks associated with minority investments and decreased influence with respect to corporate governance and control). The inability to have larger investments may have an adverse effect on returns since a Fund may be limited in investment size with respect to investments that may be viewed as particularly attractive. Also, a Fund's ability to invest in such banking institutions may require approval from one or more regulatory authorities, which may delay a Fund's ability to deploy capital, if such approval materialized in the first place. In addition, as a result of such investments, a Fund, and possibly its investors, may be required to provide certain disclosure to regulators and may be required to sign certain commitments, such as a "passivity commitment" that, among other things, may require that the Funds, HoldCo, or the Funds' investors stipulate that the respective party will not attempt to actively influence certain corporate governance matters and will limit its ownership

to certain thresholds, among other things. Given the regulatory risks associated with banks, a Fund may be in a position where it sells its investment in order to avoid regulation, for example, to avoid becoming a BHC. In such instances, the Funds' performance may suffer losses due to the quick disposition of an illiquid asset and thus may not receive what HoldCo perceives to be fair value. Moreover, one of the Funds' investment strategies may include originating a new money loan or purchasing a loan in the secondary market secured by the stock of a bank. Due to regulatory issues, the Funds may choose not to or may be unable to foreclose on the loan to obtain the bank equity, and if it does so, may quickly dispose the equity and not receive what HoldCo perceives as fair value.

**Certain Investments in Bank Equity.** The Funds invest in various forms of equity and equity-like instruments in financial institutions, including distressed financial institutions. Instruments the Funds invest in may include preferred stock, common equity (voting and non-voting), warrants, and other structured equity instruments (see "Equity Securities" above for general risks associated with an investment in equity securities). Equity and equity-like instruments associated with bank investment have additional risks associated with them including, among other things, dividends that may be deferrable on a cumulative or non-cumulative basis. In order to avoid certain regulatory requirements, a Fund may invest in non-voting equity which market participants may ascribe a lower value to than similar securities with voting rights. Moreover, a Fund's investment in a bank may be related to a corporate restructuring, which is subject to risks. As a result of the foregoing risks, a Fund's investments in bank equity and equity-like instruments may result in substantial losses to the Fund.

**Investments in Insurance Companies.** The Funds make investments in insurance companies which may take various forms, including without limitation loans, debt and debt-like instruments (including TruPS), and equity and equity-like instruments (including surplus notes) as well as CDOs that invest in any of the foregoing. Direct and indirect investments in insurance companies carry certain risks including, but not limited to, the following:

- Catastrophic or other significant natural or man-made losses, including from political instability, acts of war or terrorism, which may negatively affect its financial and operating results;
- Downgrades of a company's rating issued by a third party such as A.M. Best which could affect its ability to write new business or renew existing business thus decreasing its revenue and net income;
- The company may experience negative investment performance which affects its financial results and its ability to conduct business;
- The insurance industry is highly competitive and the company may not be able to compete, as well as may be exposed to cyclical factors in the insurance industry which may result in reduced premium volume;
- The company may be exposed to counterparty risk from reinsurance contracts which could result in negative financial results; and
- Insurance companies are highly regulated, and such current or future regulations may adversely affect the company's results.

**Structured Credit.** The Funds invest in and may also sponsor, organize, or manage securities issued by CDOs and other forms of structured credit that may be backed by a variety of collateral asset types ("Structured Credit Securities"). Some of the Funds' strategies in structured credit, such as CDO Securities and TruPS, and assets backing such assets, involve various strategies including acquiring "control" positions of the issuers of such assets. Also, certain strategies depend on the trustee's (or similar agent of the issuer's) interpretation of indentures and other governing documents. To the extent a Fund is

unable to acquire a “control” position or the trustee interprets provisions in an unfavorable way, the Fund’s performance may suffer. Moreover, in certain strategies, the Funds will acquire securities that have lower risk-adjust returns than it may otherwise purchase with the intention of using this position to pursue alternative strategies that may “unlock” additional value. To the extent HoldCo is unsuccessful in this strategy, a Fund will purchase such securities without being able to execute its strategy and its returns may suffer as a result. Investments in Structured Credit Securities are subject to various risks including the following credit, liquidity, interest rate and other risks:

- *Limited Diversification.* Structured Credit Securities may invest in concentrated portfolios of assets (“Structured Credit Securities Collateral”) that will collateralize the obligation of the Structured Credit Securities to make payments in respect of their Structured Credit Securities. The concentration of the Structured Credit Securities Collateral in any one obligor would subject the holder of the related Structured Credit Securities to a greater degree of risk with respect to defaults by such obligor and the concentration of a portfolio in any one industry would subject the holder of the related Structured Credit Securities to a greater degree of risk with respect to economic downturns relating to such industry or region.

- *Leverage Risk.* Leverage is embedded in all classes of Structured Credit Securities other than the most senior tranche. While the leverage presents opportunities for increasing a Fund’s total return, it has the effect of potentially increasing losses as well.

- *Risks of Investment Focus.* The value of the Structured Credit Securities owned by a Fund generally will fluctuate with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets included in the related Structured Credit Securities Collateral, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates.

- *Interest Rate Mismatch.* Structured Credit Securities are subject to significant interest rate risk. Some of the Structured Credit Securities Collateral of an issuer of Structured Credit Securities bears interest at a fixed rate, while the Structured Credit Securities typically bear interest at a floating rate. As a result, there could be a floating/fixed rate mismatch between such Structured Credit Securities and the Structured Credit Securities Collateral.

- *Lower Credit Quality Securities.* There are no restrictions on the credit quality of the investments of the Funds. Structured Credit Securities in which the Funds invest may be deemed by rating agencies to have substantial vulnerability to default in payment of interest and/or principal. In general, the ratings of nationally recognized rating organizations represent the opinions of such agencies as to the quality of securities that they rate. Such ratings are relative and subjective; they are not guarantees of performance or absolute standards of credit quality and do not evaluate the market value risk of the securities. It is also possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events.

- *Liquidity of Markets.* At times in the past, the fixed income markets have experienced significant falloffs in liquidity. While such events may sometimes be attributable to changes in interest rates or other factors, the cause is not always apparent. During such periods of market illiquidity, Structured Credit Securities may not be able to sell assets in their portfolio or may only be able to do so at unfavorable prices. Such “liquidity risk” could adversely impact the value of the Funds’ portfolio, and may be difficult or impossible to hedge against.

- *Collateral Management.* In Structured Credit Securities that are actively managed, a third party will act as the collateral manager for the Structured Credit Securities. In such managed Structured Credit Securities, the performance of the Structured Credit Securities will depend on the investment expertise of the collateral manager, and the collateral manager will receive fees from the Structured Credit



Securities which may reduce the return received by a Fund on its investment in the related Structured Credit Securities.

**TruPS.** The Funds invest in TruPS. TruPS are generally issued by special purpose trust subsidiaries of financial institutions, insurance companies or REITs. The trust subsidiary uses the proceeds of the sale of its TruPS to purchase deferrable debentures (the “Corresponding Debentures”) or other subordinated debt of its parent financial institution or holding company (the “Corresponding Debenture Issuer”). A trust’s only source of cash to make payments on its TruPS will be the payments that it receives on the Corresponding Debentures from the Corresponding Debenture Issuers. The cash flow characteristics of the TruPS have maturities and coupons that mirror the Corresponding Debentures of the Corresponding Debenture Issuer. TruPS issued by each trust will generally be redeemed when the Corresponding Debentures issued by its Corresponding Debenture Issuer are paid at maturity, or upon earlier redemption of the Corresponding Debentures. The TruPS may have varying coupon rates, distribution or payment dates and accrual periods, call prices and dates, maturity dates and other terms from one another.

Payments under the Corresponding Debentures, and in turn under the TruPS and the Structured Credit Securities that they underlie, are highly dependent upon payments received from the relevant Corresponding Debenture Issuer and its subsidiaries. Furthermore, adverse developments with respect to the financial, insurance and real estate industries in general may adversely affect the ability of a Corresponding Debenture Issuer to make payments under the Corresponding Debentures.

The obligations of each Corresponding Debenture Issuer will typically be unsecured, subordinate and junior in right of payment to all present and future senior indebtedness of such Corresponding Debenture Issuer. No payment of principal or premium, if any, or interest on any Corresponding Debenture may be made if (i) any payment due in respect of senior indebtedness of the issuing Corresponding Debenture Issuer is not paid when due and any applicable grace period with respect to such default has ended with such default not having been cured or waived or ceasing to exist or (ii) the maturity of any senior indebtedness of the issuing Corresponding Debenture Issuer has been accelerated because of a default and such acceleration has not been rescinded or cancelled. In addition, Corresponding Debenture Issuers may be parties to agreements with holders of their senior indebtedness that have the practical effect of further subordinating the rights of holders of the Corresponding Debentures to such holders of their senior indebtedness under certain circumstances. Any Corresponding Debenture Issuer or any subsidiary of any Corresponding Debenture Issuer may incur additional indebtedness, secured or unsecured, including any senior indebtedness, without limitation.

The Corresponding Debentures are not insured or guaranteed by the regulatory authority of any financial institution, any governmental agency or instrumentality or any insurance guaranty fund. To the extent that the Corresponding Debenture Issuer is a holding company, its ability to make distributions on the Corresponding Debentures will be highly dependent upon the earnings of its subsidiaries, and its ability to receive payments from such subsidiaries in the form of dividends, fees, loans or distributions but such subsidiaries are not obligated to make payments under the Corresponding Debentures or otherwise pay or guaranty the payment of any amounts in respect of the TruPS.

There are also various legal and regulatory limitations on the extent to which a Corresponding Debenture Issuer’s subsidiaries may extend credit, pay dividends or otherwise supply funds to the Corresponding Debenture Issuer or various of its affiliates. In particular, with respect to insurance companies, payments of dividends or Other Distributions to the Corresponding Debenture Issuer or its affiliates by the Corresponding Debenture Issuer’s U.S. domiciled insurance company subsidiaries are subject to the various insurance regulatory restrictions of the states having jurisdiction over such insurance company subsidiaries. Such laws typically vary from state to state. Certain states generally require that any statutory surplus following any dividend or distribution be reasonable in relation to such subsidiary’s outstanding liabilities and adequate to meet its financial needs and permit the payment of dividends only

out of earned (unassigned), as opposed to contributed, statutory surplus. In addition, many states prohibit an insurance company, without prior notice to and approval of the applicable regulatory authority, to declare or pay an extraordinary dividend or to enter into certain agreements, loans, exchanges of assets and other transactions with a subsidiary, including its Corresponding Debenture Issuer. For insurance regulatory purposes, the surplus of an insurance company is generally determined on the basis of Statutory Accounting Practices (“SAP”) prescribed or permitted by the state of domicile rather than generally accepted accounting principles. SAP generally is a more conservative measure of an insurance company’s surplus.

The right of a Corresponding Debenture Issuer to participate in any distribution of assets of any of its subsidiaries upon liquidation, reorganization or otherwise will be subject to the claims of the creditors and any preferred equityholders of the applicable subsidiary, except to the extent that the Corresponding Debenture Issuer is recognized as a creditor of such subsidiary. Even if the Corresponding Debenture Issuer is recognized as a creditor of its insurance company subsidiary, its claims as such will likely be subordinated to those of policyholder creditors in the context of the liquidation of the insurance company subsidiary pursuant to the applicable state insolvency laws governing such liquidation. Accordingly, the Corresponding Debenture Issuer’s Corresponding Debentures and guarantee will effectively be subordinated to all existing and future liabilities and preferred equity of the Corresponding Debenture Issuer’s insurance subsidiaries.

A default in the payment of principal of or premium, if any, or interest on, or a deferral in interest payments on, any Corresponding Debentures will decrease the amount of cash available to the trusts to make payments on the related Structured Credit Securities.

The terms and provisions of the TruPS may vary and such variations may be material. There can be no assurance that differences between the terms and provisions of some TruPS in comparison to the terms and provisions of other TruPS will not have an adverse effect on the related Structured Credit Securities that they underlie and, consequently, on the Funds. Prospective purchasers of TruPS need to consider and assess the likely level of defaults and the likely level and timing of recoveries on the TruPS and on the Structured Credit Securities that they underlie.

HoldCo expects that the Funds’ investments in TruPS will be associated with financial institutions that are in distress, including financial institutions that may be deferring interest on its TruPS or are in default in respect of its obligations related to its TruPS. Given the risks associated with investments in TruPS, the Funds’ investments in TruPS may result in losses to the Funds.

**Investments in Real Property.** The Funds invest directly or indirectly in real property, exposing a Fund to increased risks and liabilities that are inherent in the ownership of real property such as liability under environmental laws, personal and property injury, and litigation risk (including with respect to activities that took place prior to the acquisition of such property).

Further, investments in real estate are subject to the risks inherent in the ownership and operation of real estate and real estate-related businesses and assets. These risks include those associated with the burdens of ownership of real property, general and local economic conditions, changes in supply of and demand for competing properties in an area (as a result, for instance, of overbuilding), fluctuations in the average occupancy, the financial resources of tenants, changes in building, environmental and other laws, energy and supply shortages, various uninsured or uninsurable risks, natural disasters, changes in government regulations (such as rent control), changes in real property tax rates, changes in interest rates, the reduced availability of mortgage funds that may render the sale or refinancing of properties difficult or impracticable, negative developments in the economy that depress travel activity, environmental liabilities, contingent liabilities on disposition of assets, terrorist attacks, war and other factors that are beyond a Fund’s or HoldCo’s control.

Lenders in commercial real estate financing customarily require a “bad boy” guarantee, which typically provides that the lender can recover losses from the guarantors for certain bad acts, such as fraud or intentional misrepresentation, intentional waste, willful misconduct, criminal acts, misappropriation of funds, voluntary incurrence of prohibited debt and environmental losses sustained by the lender. For a Fund, “bad boy” guarantees would generally be extended to the Fund, its balance sheet or a combination of both depending on the ownership of the relevant asset. In addition, “bad boy” guarantees typically provide that the loan will be a full personal recourse obligation of the guarantor, for certain actions, such as prohibited transfers of the collateral or changes of control and voluntary bankruptcy of the borrower. It is expected that commercial real estate financing arrangements generally will require “bad boy” guarantees and in the event that such a guarantee is called, the Fund’s assets could be materially and adversely affected. Moreover, “bad boy” guarantees could apply to actions of any joint venture partners associated with the investment, and in certain cases the acts of such joint venture partner could result in liability to the Fund under such guarantees.

**REITs.** The Funds invest in securities issued by REITs, including REIT TruPS, and such securities, in addition to the foregoing risks outlined associated with TruPS are also subject to the performance of the REIT, which in turn is subject to varying degrees of risk incident to the ownership and financing of real property. REITs may be affected by changes in the value of their underlying properties and by defaults by borrowers or tenants. REITs depend on their ability to generate cash flow to make distributions and may be impacted by changes in tax laws or by a failure to qualify for tax-free pass-through income.

**Ownership and Investments in Privately Held Companies.** Investments by the Funds in private companies pose certain incremental risks as compared to investments in public companies, including that private companies:

- Have reduced access to the capital markets, resulting in diminished capital resources and ability to withstand financial distress;
- May have limited financial resources and (i) may be unable to meet their obligations under debt that a Fund holds, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of the Fund recovering its investment or (ii) may require substantial capital infusions after acquisition;
- May have shorter operating histories, narrower product lines and smaller market shares than larger business, which tend to render them more vulnerable to competitors’ actions and changing market conditions, as well as general economic downturns;
- Are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on a Fund’s investee company and, in turn, on the Fund; and
- Generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing business with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion, or maintain their competitive position.

Finally, limited public information generally exists about private companies and these companies may not have third-party debt ratings or audited financial statements. The Funds must therefore rely on the ability of HoldCo’s employees and advisors to obtain adequate information through due diligence to evaluate the creditworthiness and potential returns from investing in these companies. Additionally, these companies and their financial information will not generally be subject to the Sarbanes-Oxley Act and other

rules that govern public companies. If the Funds are unable to uncover all material information about these companies, they may lose money on such investments.

**Tender Offers.** Certain of the Funds have in the past made tender offers for securities and may do so again in the future. A tender offer is a solicitation of all or nearly all holders of a certain security to purchase such securities at a given price or range of prices. Tender offers require the offeror, *i.e.* the Funds, to agree to a price for the securities up front, and the tender offer can only be terminated or rescinded under specified conditions, which may or may not occur. Tender offers are also made without first soliciting the holders of the securities regarding their interest in selling, and such holders may not agree to sell their securities. In that circumstance, the applicable Fund will still incur approximately the same amount of fees and expenses as it would have in a successful tender offer, but will not have acquired any securities. In addition, the SEC regulates tender offers, and any tender offer made by the Funds will be subject to such regulations. If a Fund fails to comply with the rules and regulations applicable to tender offers, the Fund could face adverse consequences from an investigation or prosecution related to such non-compliance.

**General Economic and Capital Market Conditions.** General economic and capital market conditions which are outside of the Funds' control may affect the activities of the Funds. These conditions may include changes in interest rates, availability of credit, inflation or expectations for inflation, deflation or expectations for deflation, economic uncertainty, changes in laws (including laws relating to taxation), trade barriers, commodity prices, currency exchange rates and controls and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of securities prices and the liquidity and the value of the Funds' investments. HoldCo may not be able to or may choose not to manage a Fund's exposure to these market conditions and/or other events. In the event of a market downturn, each of the Funds' investments could be affected in different ways. Conversely, buoyant markets and positive economic conditions may make it more difficult and competitive to find suitable investments for a Fund and to effectively deploy capital. This could adversely affect a Fund's performance.

The global economy and capital and credit markets have experienced exceptional turmoil and upheaval over the past several years. Many major economies worldwide entered significant economic recessions in recent times and continue to experience economic weakness, with the potential for another economic downturn to occur. Ongoing concerns about the systemic impact of potential long-term and widespread recession and potentially prolonged economic recovery, volatile energy costs, geopolitical issues, the availability, cost and terms of credit, consumer and business confidence and demand, and substantially increased unemployment rates have all contributed to increased market volatility and diminished expectations for many established and emerging economies, including those in which the Funds operate. These general economic conditions could have a material adverse effect on a Fund's cash flow from operations, results of operations and overall financial condition.

Distributions may not be made by a Fund to its limited partners due to general economic conditions, conditions in the credit markets, the illiquidity of the Funds' investments, constraints imposed by financing arrangements, contractual prohibitions, inability to dispose of investments at attractive prices due to buyers' inability to secure financing or other reasons mentioned below. Issuers in which the Funds invest may face intense competition, changing business and economic conditions and other developments that may adversely affect their performance. Business risks may be more significant in issuers that are embarking on a build-up or operating a turnaround strategy. General fluctuations in the market prices of securities, including public securities market prices, may adversely affect the value of investments held by the Funds and/or the ability of the Funds to dispose of investments at attractive valuations. The Funds may be unsuccessful in structuring their investments to minimize any detrimental impact that a recession may have on its investments and as a result the Funds may suffer significant losses.

**Economic and Market Conditions in the U.S.** The Funds and the businesses of the companies in which they invests are materially affected by financial markets and economic conditions or events throughout the world, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation), trade barriers, commodity prices, currency exchange rates and controls and national and international political circumstances (including wars, terrorist acts, security operations and riots). In the past, difficult market conditions and economic trends have adversely affected the financial services industry and the securities markets, which were materially and adversely affected by significant declines in the values of nearly all asset classes and by a pronounced lack of liquidity. These trends caused the global markets to have increased volatility and had a negative impact on investor confidence in both financial institutions as well as a number of other industries and in the broader financial markets. Furthermore, general downward economic trends, reduced availability of commercial credit and increased unemployment can negatively impact the performance of commercial and consumer credit. At the present time, the markets are highly volatile and governments throughout the world, including the United States, continue to carry a significant amount of debt, partially as a result of the 2008 financial crisis and in response to the COVID-19 pandemic. In addition, interest rates in the United States and in certain countries around the world have risen as a result of inflationary pressures. Unfavorable or volatile market and economic conditions may reduce opportunities to make, exit and realize value from investments. Challenging market and economic conditions in the U.S., including those caused by changes in tax laws and other regulatory restrictions, may make it difficult to find suitable investments for a Fund or to exit and/or realize value from investments.

**Force Majeure.** HoldCo's strategies and investments on behalf of its Funds may be affected by force majeure events (i.e., events beyond HoldCo's control, including acts of God, fire, flood, earthquakes, outbreaks of an infectious disease, pandemic or any other serious public health concern, war, terrorism and labor strikes). Certain force majeure events (such as war or an outbreak of an infectious disease that becomes a global pandemic) could have a broader negative impact on the world economy and international business activity generally, or in any of the countries where HoldCo invests. In particular, such events may materially and adversely impact the value and performance of the Funds, their ability to source, manage and divest investments and their ability to achieve their investment objectives. In addition, the operations of the Funds and their respective general partners and managers may be significantly impacted, or even temporarily or permanently halted, as a result of required office closures, government quarantine measures, voluntary and precautionary restrictions on travel or meetings and other factors related to the force majeure event. Any one or any combination of the foregoing may therefore adversely affect performance.

**Non-U.S. Investments.** The Funds invest in non-U.S. issuers or assets. Non-U.S. investments involve certain risk factors not typically associated with investing in investments in the United States, including risks relating to (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar and the various non-U.S. currencies in which a Fund's investment may be denominated, and costs associated with conversion of investment principal and income from one currency into another, (ii) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements, and differences in government supervision and regulation, and (iii) certain economic and political risks, including potential exchange-control regulations, potential restrictions on non-U.S. investment and repatriation of capital, the risks associated with political, economic or social instability, the possibility of imposition of withholding or other taxes on dividends, interests, capital gain, other income or gross sale or disposition proceeds and the possibility of expropriation or confiscatory taxation.

Investing outside the United States, including in emerging markets with less established legal, regulatory, and capital regimes, may involve greater risk than investing in the United States. These risks include: (i) fewer investor protections and less publicly available information; (ii) less (or more) governmental regulation and supervision; (iii) political hostility to investments by foreign investors; and (iv) the difficulty of enforcing legal rights in a foreign jurisdiction and uncertainties as to the status,

interpretation and application of laws. Moreover, foreign companies are generally not subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to U.S. companies. In addition, the economies of foreign countries may differ favorably or unfavorably from the U.S. economy in areas such as growth of gross domestic product, rate of inflation, volatility of currency exchange rates, depreciation, capital reinvestment, resource self-sufficiency and balance of payments position. To the extent the assets acquired internally by the Funds are stressed, distressed, or special situations, such risks, especially legal risks, may be especially heightened.

There generally is less governmental supervision and regulation of exchanges, brokers and issuers in foreign countries. For example, there may be no comparable provisions under certain foreign laws to insider trading and similar investor protection securities laws that apply with respect to securities transactions consummated in the United States. Further, brokerage commissions, custodian fees and other transaction costs on foreign securities exchanges generally are higher than in the United States.

Foreign markets also have different clearance and settlement procedures, and in certain markets there have been times when settlements have failed to keep pace with the volume of securities transactions, making it difficult to conduct such transactions. Delays in settlement could result in periods when assets of the issuer are uninvested and no return is earned thereon. The inability of a Fund to make intended purchases due to settlement problems or the risk of intermediary counterparty failures could cause the Fund to miss investment opportunities. The inability to dispose of an asset due to settlement problems could result either in losses to the Fund due to subsequent declines in the value of such asset or, if the Fund has entered into a contract to sell the security, could result in possible liability to the purchaser.

In many foreign countries there is the possibility of expropriation, nationalization or confiscatory taxation, restrictions on investments, limitations on the convertibility of currency or the removal of securities, property or other assets of a Fund, political, economic or social instability or adverse diplomatic developments, each of which could have an adverse effect on a Fund's investments in such foreign countries and, consequently, materially impair the Fund's ability to pay principal of, interest on, and other amounts owing in respect of, the investments. In addition, investments based outside of the United States are subject to the risk of the possibility of restrictions on international trade or the imposition of tariffs.

**Benchmark Rates.** The London Interbank Offered Rate (LIBOR), which was commonly used as a reference rate within various financial contracts, is no longer published. There is no assurance that any alternative reference rate, such as the Secured Overnight Financing Rate (SOFR), will be similar to or produce the same value or economic equivalence as LIBOR or that it will have the same volume or liquidity as did LIBOR prior to its discontinuance, unavailability or replacement. Although new financial instruments based on LIBOR are not expected to be issued going forward, the Funds may acquire financial instruments based on LIBOR on a secondary basis. LIBOR's discontinuation and uncertainties with respect to new benchmark rates may impact the Funds' investments, borrowing facilities, hedging activities, or other assets or structures tied to interest rates in myriad ways, including by changing the economics of the investments, increasing valuation risk, reducing the effectiveness of certain hedges, and creating legal, administrative, and operational complexities.

**Cybersecurity Risk.** As part of its business, HoldCo processes, stores and transmits electronic information, including information relating to the Funds' transactions and personally identifiable information of the Funds' limited partners. Similarly, service providers of HoldCo or the Funds, especially the Funds' administrators, may process, store and transmit such information. HoldCo has procedures and systems in place that it believes are reasonably designed to protect such information and prevent data loss and security breaches. However, such measures cannot provide absolute security. The techniques used to obtain unauthorized access to data, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time. Hardware or software acquired from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise

information security. Network connected services provided by third parties to HoldCo may be susceptible to compromise, leading to a breach of HoldCo's network. HoldCo's systems or facilities may be susceptible to employee error or malfeasance or other security threats. Breach of HoldCo's information systems may cause information relating to the Funds' transactions and personally identifiable information of the Fund's limited partners to be lost or improperly accessed, used or disclosed.

HoldCo's and the Funds' service providers are subject to the same electronic information security threats as HoldCo. If a service provider fails to adopt or adhere to adequate data security policies, or in the event of a breach of its networks, information relating to the transactions of the Funds and personally identifiable information of the limited partners may be lost or improperly accessed, used or disclosed.

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

**Dependence on Key Individuals.** The Funds' success depends upon HoldCo's ability to develop and implement investment strategies that achieve the Funds' investment objective. The Funds' performance is largely dependent on the talents and efforts of highly skilled individuals at HoldCo, including founders Vik Ghei and Misha Zaitzeff. If the Funds were to lose the services of one or more of HoldCo's key members, the consequence to the Funds could be material and adverse.

**Risks Related to Remote Working.** HoldCo's employees may and do work remotely. Remote working environments may be less secure and more susceptible to hacking attacks and other cybersecurity incidents. These events could interrupt the business or operations of HoldCo or the Funds, resulting in significant legal and financial exposure, supervisory liability, damage to the reputation of HoldCo or the Funds or a loss of confidence in the security of the systems, products and services of HoldCo or the Funds. Although the impact to date from these types of events has not had a material adverse effect on HoldCo or the Funds, it cannot be assured that this will be the case in the future.

Additional risk factors are set forth in the Funds' respective private placement memoranda and limited partnership agreements. Investors in the Funds are encouraged to review such risk factors.

C. As noted above, HoldCo does not recommend a particular type of security.

## **Item 9 – Disciplinary Information**

Neither HoldCo nor any person employed by HoldCo have any legal or disciplinary events to disclose.

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

A. Neither HoldCo nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or as an associated person of the foregoing entities.

B. See response to Item 10.A above.

C. HoldCo's affiliates serve as general partners to the Funds. HoldCo and its affiliates will devote as much time to the activities of each of the Funds as they deem necessary and appropriate. Subject to certain restrictions in the Funds' offering documents, HoldCo is not prohibited from forming additional investment funds, from entering into other investment advisory relationships, or from engaging in other business activities. If HoldCo or any of its affiliates decides to engage in such activities in the future, HoldCo or its

respective affiliates, as applicable, will undertake to engage in such activities in a manner that is consistent with such party's contractual and fiduciary duties to the existing Funds. Nevertheless, these activities could be viewed as creating a conflict of interest in that the time and effort of the members and partners of HoldCo and its officers and employees will not be devoted exclusively to the business of the existing Funds but will be allocated between the business of the existing Funds and the management of any new clients.

**D.** HoldCo does not recommend other investment advisers for its Funds and consequently does not receive compensation for recommending or selecting other investment advisers for its Funds.

## **Item 11 – Code of Ethics**

**A.** HoldCo has adopted a Code of Ethics for all HoldCo's supervised persons describing its high standard of business conduct, and fiduciary duty to its Funds. Among other things, the Code of Ethics requires that HoldCo's employees as well as Vik Ghei and Misha Zaitzeff act in the best interests of the Funds to the exclusion of contrary interests, act in good faith and in an ethical manner, avoid conflicts of interest with the Funds to the extent reasonably possible, and identify and manage conflicts of interest to the extent that they arise. All supervised persons at HoldCo, including Vik Ghei and Misha Zaitzeff, must acknowledge the terms of the Code of Ethics annually and when it is amended.

In addition, the Code of Ethics sets forth formal policies and procedures with respect to the personal securities trading activities of HoldCo's employees as well as Vik Ghei and Misha Zaitzeff. The Code of Ethics imposes certain restrictions on employee personal securities trading and requires that employees report all securities transactions on not less than a quarterly basis and provide a summary of securities holdings on at least an annual basis. The Code of Ethics also addresses outside activities of employees, conflicts of interest, policies and procedures concerning the prevention of insider trading, including restrictions on the acceptance of significant gifts and business entertainment items and limitations on political contributions.

Clients or prospective clients may request a copy of HoldCo's Code of Ethics by contacting Shan Chang, HoldCo's Chief Compliance Officer, at [shan@holdcoam.com](mailto:shan@holdcoam.com).

**B.** It is HoldCo's policy that it will not effect any principal or agency cross securities transactions for Client accounts. HoldCo will also not cross trades between Client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated private fund and another Client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the Client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

**C.** To address potential conflicts of interest relating to Client securities holdings, the Code of Ethics is designed to ensure that the personal securities transactions, activities, and interests of HoldCo's employees will not interfere with (i) making decisions in the best interest of the Funds and (ii) implementing such decisions. Employees, as well as Vik Ghei and Misha Zaitzeff, are prohibited from purchasing all "Reportable Securities" (as defined in the Code of Ethics) except for exchange traded funds, without a documented exception from the Chief Compliance Officer and pre-clearance to trade. Such "Reportable Securities" include, but are not limited to, single name stocks, bonds, and notes.

Employees, as well as Vik Ghei and Misha Zaitzeff, are permitted to trade, without pre-clearance from the Chief Compliance Officer, in certain exempt securities such as mutual funds, exchange traded



funds, and U.S. government securities. Any other trades, including the sale of Reportable Securities held by an employee prior to his/her employment with HoldCo, require pre-clearance from the Chief Compliance Officer. Employee personal trading is continually monitored under the Code of Ethics to identify and minimize conflicts of interest between HoldCo and its Clients.

Prior to the fund's wind-up in 2022, all partners of HoldCo Opportunities Fund III, L.P. ("Fund III") were given the option (on an asset-by-asset basis) of receiving their pro rata share of Fund III's securities in-cash or in-kind. If a partner selected the in-cash option, their proportionate share of the securities was contributed to HOF III. If a partner selected the in-kind option, their proportionate share of the securities was delivered to a securities account in the partner's name. VM GP VII LLC (which is owned by Vik Ghei and Misha Zaitzeff) received an in-kind distribution of certain securities from Fund III. VM GP VII LLC is not permitted to sell any security held by it until after HOF III sells all of its corresponding position.

**D.** See response to Item 11.C above.

## **Item 12 – Brokerage Practices**

**A.** HoldCo is authorized to determine the broker or dealer to be used for each securities transaction for the Funds. However, in determining the reasonableness of commissions and in selecting brokers and dealers to effect portfolio transactions for the Funds, HoldCo seeks to obtain best execution by considering such factors as the ability of the brokers or dealers to effect the transactions, their facilities, reliability and financial responsibility, and the costs of brokerage or research products or services which HoldCo considers to be of benefit to its Clients.

HoldCo does not participate in any soft dollar arrangements where it receives "credits" for executing transactions in order to pay for third-party services. However, HoldCo does receive research from certain of its executing brokers and the Funds' offering documents permit HoldCo to utilize "soft dollars" on behalf of the Funds if such arrangements fall within the "safe harbor" under Section 28(e) of the Securities Exchange Act of 1934, as amended.

Client referrals are not considered in selecting or recommending broker-dealers.

HoldCo does not engage in directed brokerage arrangements.

**B.** As noted, HoldCo manages investments on behalf of a number of Funds. The Funds have investment programs that are similar or overlap and may, therefore, under certain circumstances discussed below, participate with one another in investments.

**Aggregation.** HoldCo aggregates trades pursuant to the following guidelines and policies (although each of the following may not apply to all aggregated trades):

- if HoldCo believes such aggregation is consistent with its duty to seek best execution (which shall include best price) for its Clients and is consistent with the terms of HoldCo's investment advisory agreements;
- if HoldCo believes that aggregations would cause the Client's costs of execution to be decreased;
- if no Client would be impermissibly favored over any other Client that participates in the aggregated orders and all participating Clients would participate at the average price acquired for all transactions on a given business day;
- if allocations are made pursuant to HoldCo's allocation policies;
- HoldCo's books and records will separately reflect, for the Clients whose orders are aggregated, the securities held by and bought and sold for each Client;

- Funds of the participating Clients whose orders are aggregated will be deposited with one or more banks or broker/dealers, and any cash attributable to the accounts will not be held collectively for the respective owners any longer than is commercially necessary to settle the purchase or sale in question on a delivery versus payment basis;
- HoldCo will receive no additional compensation or remuneration of any kind as a result of the proposed aggregation procedure; and
- individual investment advice and treatment will be accorded to each Client.

**Allocation.** HoldCo will, in certain circumstances, allocate orders among different Clients. The governing documents for each Fund discuss the means and method for allocating investments across the Funds, and HoldCo will comply with the terms set forth in such documents.

HoldCo will retain records of each trade (specifying each participating account) and its allocation. Any exceptions to HoldCo's allocation policy will be explained in writing, and HoldCo will maintain a record of any such exceptions.

### **Item 13 – Review of Accounts**

**A.** HoldCo is responsible for reviewing and analyzing existing Fund positions and other opportunities on an ongoing basis in connection with their investment decision-making process and to ensure that the Funds' investments are consistent with each Fund's objectives. Members of HoldCo's Valuation Committee (consisting of Vik Ghei, Misha Zaitzeff, the Chief Financial Officer and the Chief Compliance Officer) monitor ongoing valuations of the Funds' investments on a monthly, quarterly, and annual basis, and the Valuation Committee formally meets at least quarterly to discharge its duties. HoldCo generally provides investors monthly, quarterly, and annual reports.

**B.** More frequent reviews may be triggered by material changes in variables such as a Fund's individual circumstances, or the market, political or economic environment.

**C.** Investors in the Funds managed by HoldCo receive monthly reports, quarterly unaudited financial statements, and annual audited financial statements from such Funds' administrators.<sup>1</sup>

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

**A.** No one other than HoldCo's Clients provide an economic benefit to HoldCo for providing investment advice or other advisory services to the Clients.

**B.** HoldCo has entered, and may again in the future enter, into agreements with placement agents and/or third party solicitors in connection with the solicitation of investors in the Funds and such agreements may provide for payment to the relevant party of a portion of the subscription amount by investors or ongoing payments to the relevant party based upon a percentage of the management fee or incentive compensation attributable to the investments introduced by such placement agent. At present, only HoldCo Opportunities Fund II, L.P. has entered into arrangements with placement agents.

Unless otherwise expressly disclosed to an investor, any fees paid to placement agents and/or solicitors that are paid by a Fund will offset the Management Fee or Performance Compensation otherwise payable or allocated to HoldCo.

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<sup>1</sup> HoldCo Co-Investment Fund II, L.P. is self-administered.

## Item 15 – Custody

HoldCo is generally deemed to have constructive custody of the Funds' assets because HoldCo or a HoldCo affiliate serves as general partner or manager of each Fund. With respect to the Funds, HoldCo complies with Rule 206(4)-2 under the Investment Advisers Act of 1940 (the "Custody Rule") by meeting the conditions of the pooled vehicle annual audit provision of the Custody Rule, including that (i) each Fund will be subject to an audit conducted in accordance with generally accepted accounting principles at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and (ii) each Fund's audited financial statements are delivered to investors within 120 days of each Fund's fiscal year end.

Further, HoldCo is required to maintain the funds and securities (except for securities that meet the privately offered securities exemption in the Custody Rule) over which it has custody with a "qualified custodian." Qualified custodians include banks, brokers, futures commission merchants and certain foreign financial institutions. Qualified custodians have been obtained for each Fund.

## Item 16 – Investment Discretion

As noted in Item 4 – Advisory Business, HoldCo Opportunities Fund II, L.P., HoldCo Opportunities Fund IV, L.P., HoldCo Opportunities Fund V, L.P., and HOF III are managed on a fully discretionary basis. HH HoldCo Co-Investment Fund, L.P., and HoldCo Co-Investment Fund II, L.P. are not managed on a fully discretionary basis (*i.e.*, new investments require the consent of limited partners but post-investment oversight and sale decisions do not). HoldCo makes all investment decisions in accordance with its investment management agreements with each Fund and the investment objectives and strategies set forth in each Fund's investment management agreements, governing documents, and offering materials.

## Item 17 – Voting Client Securities

**A.** From time to time, HoldCo votes securities held by its Funds on various matters, including proxy proposals, amendments, consents, or resolutions (collectively, "proxies"). HoldCo votes proxies in a manner that best serves the interests of the Funds, as determined on a case-by-case basis. HoldCo has appointed a proxy voting committee to oversee its voting of proxies on behalf of the Funds and to review potential conflicts of interest that may influence its voting. Upon receipt of a proxy from a Fund's custodian or directly if a Fund is the record holder of a security, a member of HoldCo's investment team will review each proxy to determine how, or if, to vote the proxy, and the CCO will review the proxy to determine if it presents a conflict of interest. In determining how to vote, HoldCo will consider the best interests of the applicable Fund.

HoldCo's proxy voting policy is designed to determine if a conflict of interest exists and to ensure that if a material conflict of interest is identified, that the proxy vote is not improperly influenced by the conflict. Conflicts may arise from time to time in relation to proxy voting requirements, and HoldCo may vote proxies notwithstanding the existence of the conflict. HoldCo monitors all proxies for any potential conflicts of interest. If a material conflict of interest arises, the proxy voting committee will determine how to address the conflict.

Records are maintained of all proxy votes. Clients should contact HoldCo's Chief Compliance Officer, Shan Chang, at [shan@holdcoam.com](mailto:shan@holdcoam.com) for a copy of the proxy voting policy or for information with respect to a specific proxy vote.

**B.** As noted above, HoldCo has authority to vote on behalf of its Funds.

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

- A.** HoldCo does not require or solicit prepayment of more than \$1,200 in fees per Client six months in advance. Accordingly, HoldCo is not required to include a balance sheet for its most recent fiscal year.
- B.** HoldCo is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to its Clients.
- C.** HoldCo has not been the subject of a bankruptcy petition at any time during the past ten years.