

## **Form ADV Part 2A: Firm Brochure**

### **Scion Asset Management, LLC**

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This brochure provides information about the qualifications and business practices of Scion Asset Management, LLC (“Scion”). If you have any questions about the contents of this brochure, please contact Jonathan Jillson, Chief Compliance Officer, at 408-441-8400 or email [jjillson@scionasset.com](mailto:jjillson@scionasset.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

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

Any reference to Scion Asset Management, LLC as a “registered investment adviser” or as being “registered,” does not imply a certain level of skill or training.

## Item 2: Material Changes

There have been no material changes since our last brochure was filed.

## Item 3: Table of Contents

Item 2: Material Changes .....	2
Item 3: Table of Contents.....	2
Item 4: Advisory Business .....	2
Item 5: Fees and Compensation .....	4
Item 6: Performance Based Fees and Side-by-Side Management .....	5
Item 7: Types of Clients.....	6
Item 8: Methods of Analysis, Investment Strategies and Risk of Loss .....	7
Item 9: Disciplinary Information .....	24
Item 10: Other Financial Industry Activities and Affiliations .....	24
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading ..	24
Item 12: Brokerage Practices .....	24
Item 13: Review of Accounts.....	27
Item 14: Client Referrals and Other Compensation.....	27
Item 15: Custody .....	27
Item 16: Investment Discretion .....	27
Item 17: Voting Client Securities.....	27
Item 18: Financial Information .....	28

## Item 4: Advisory Business

Scion is a limited liability company organized under the laws of the State of Delaware. Commencing operations in 2013, Scion is primarily owned and controlled by Dr. Michael J. Burry. The investment activities of Scion are led by Dr. Burry together with other investment professionals who assist in executing the investment strategy.

As of December 31, 2023, Scion managed \$192,572,864 of net assets on a discretionary basis. This number differs from our “regulatory assets under management” shown on Part 1A of the Form ADV because it reflects the net value of the assets under management. “Regulatory assets under management” is a gross assets measurement adopted by the SEC that does not allow deduction for liabilities associated with borrowing securities to effect a short sale. We believe that this approach better reflects the amount of assets we actually manage.

Scion provides discretionary investment advice to the following private investment funds:

- Scion Master G7, L.P. (the “Master Fund”), a Cayman Islands exempted limited partnership;
- Scion G7, L.P. (the “Onshore Fund”), a Delaware limited partnership;
- Scion G7 Offshore, Ltd. (the “Offshore Fund”), a Cayman Islands exempted company;
- Scion Value G7, L.P. (the “Value Fund”), a Delaware limited partnership; and

Each private fund listed above are herein referenced as Scion’s “Clients.”

The Onshore Fund and the Offshore Fund are feeder funds into the Master Fund. The Master Fund, Onshore Fund, Offshore Fund, and Value Fund are collectively referred to herein as the “Funds” or each a “Fund.” Shares or limited partnership interests in the Funds are not registered under the U.S. Securities Act of 1933, as amended; nor are the Funds registered under the Investment Company Act of 1940, as amended. Accordingly, interests or shares in the Funds are offered and sold exclusively to investors satisfying the applicable eligibility and suitability requirements, either in private transactions within the U.S. or in offshore transactions.

Darkwand, LLC (“Darkwand”) is the general partner (the “General Partner”) of the Onshore Fund, the Master Fund, and the Value Fund. The General Partner is primarily owned and controlled by Dr. Burry.

Unless and only to the extent that the context otherwise requires, references to Scion include the General Partner.

In providing services to its Clients, among other things, Scion (i) manages Clients’ assets in accordance with the terms of the applicable governing documents or investment management agreements (“IMA”); (ii) formulates investment objectives; (iii) directs and manages the investment and reinvestment of Clients’ assets; and (iv) provides periodic reports to investors and separate account owners.

Investment guidelines and restrictions for Clients, if any, are generally established in the applicable Fund’s governing documents. Scion provides investment advice directly to the Funds and not individually to a Fund’s limited partners or investors, subject to the direction and control of the respective General Partner and/or Directors of each Fund.

A Strategic Investor in the Onshore Fund has additional and/or different rights including withdrawals, access to information, minimum investment amounts, liquidity terms and aggregate investment amount accepted. Scion and its constituent members or partners, affiliates, employees, and family members of the foregoing may withdraw their investment in a Fund at any time without incurring any excess withdrawal fees.

The Clients seek long-term capital appreciation. Scion plans to pursue Clients’ investment objectives primarily through fundamental research in pursuit of undervalued and/or misunderstood investment situations in the global theater. This fundamental research may take into account technical, macroeconomic, and other tactical approaches to the ever-changing securities marketplace. Scion may cause Clients to take either “long” or “short” positions, as opportunities warrant. In addition, Scion may apply both long-term and short-term strategies in individual securities.

From time to time, Clients may, to the extent permitted by the Rules of the U.S. Financial Industry Regulatory Authority (“FINRA”) as may be amended from time to time (the “Rules”), purchase equity securities that are part of an initial public offering (sometimes referred to as “IPOs” or “new issues”). Under the Rules, brokers may not sell such securities to a private investment fund, if the fund has investors who are “Restricted Persons”, which category includes persons employed by or affiliated with a broker and portfolio managers of hedge funds and other registered and unregistered

investment advisory firms, unless the fund has a mechanism in place that excludes such Restricted Persons from receiving allocations of profits from new issues. The profits and losses with respect to new issues will generally be allocated to Clients and investors in the Funds that are not Restricted Persons.

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

Scion's compensation for the investment advisory services it provides to its Clients is comprised of an asset-based management fee and an incentive allocation/fee based on the performance achieved. The fees and expenses applicable to each Client are set forth in detail in each of the Fund's respective offering memorandums. Fees and incentive allocations paid to Scion or the General Partner by the Funds are generally deducted directly from Fund investors' capital accounts.

A brief summary of fees and expenses is provided below.

### Management Fee

The Clients' Investment Management Agreements obligate a Client to pay Scion an asset-based management fee up to 2% per annum. Scion generally deducts the Funds' asset-based fees from an investor's capital account monthly, calculated in advance. For purposes of calculating management fees, Scion will value Designated Investments<sup>1</sup> at the lower of cost or fair market value.

Scion may vary the Management Fee for particular Clients or Fund investors by separate agreement with them without notice to the other Clients or investors and may, in its discretion, reduce or waive any Management Fees at any time. It has waived the Management Fee (and Incentive Allocation) for Scion and Scion's constituent members or partners, affiliates, employees, and family members of the foregoing.

### Incentive Allocation/Fee

Scion will be entitled to up to a 20% share in the appreciation in value of each Client's account balance, including profits from Designated Investments, and subject to a loss carryforward procedure, on an annual basis. The Funds' General Partner expects that for most periods and as to most sources of profit, this will be effected through incentive allocations the Funds make to the General Partner.

Incentive allocations/ fees will generally be based on each calendar year's performance and made at each December 31. However, if an investor withdraws capital other than as of December 31, the Funds will make an incentive allocation based on year-to-date performance, in proportion to the reduction in the investor's relevant account balance caused by the withdrawal. Those incentive allocations will reduce the withdrawal proceeds payable to the withdrawing investor.

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<sup>1</sup> "Designated Investments" will generally be assets for which there is no public market or for which the prices reflected in market activity do not, in Scion's judgment, reflect the amount for which the Funds could dispose of them in a reasonable period. An asset may be designated as a "Designated Investment" when the asset is acquired or after the asset has been held for some time.

Scion will only charge incentive compensation to Qualified Clients in accordance with Rule 205-3 under the Investment Advisers Act of 1940, as amended (the “Advisers Act”).

### Expenses

The Funds bear all of their operating costs (as more fully described in each Fund’s Offering Memorandum) and their pro rata share (or other portion as determined by Scion) of any expenses shared among Scion’s Clients. These operating and shared expenses include, among other things: bookkeeping, accounting, tax preparing and reporting, audit, and other professional fees and expenses; brokerage and other transaction-related costs (see Item 12); legal fees (including fees paid to Scion’s counsel for services in connection with the Fund’s legal affairs and activities); governmental fees and taxes; custodial fees; prime broker fees; costs of reporting to investors; costs of a Fund’s governance activities; costs of compliance with regulatory or reporting requirements to which a Fund, the General Partner, Scion, or their affiliates is or becomes subject that relate to the Fund (including costs of preparing and submitting Schedules 13D, 13G, 13H and 13F, as well as Forms PF and similar filings); expenses related to investment research and due diligence, including costs of third party analytical services; certain travel costs; fees and expenses paid or reimbursed to the Fund Administrator; all costs incurred in connection with the ongoing offer and sale of Interests; and all other reasonable expenses related to the Funds’ operations or the purchase, sale or transmittal of assets, all in the General Partner’s discretion. If the Funds may be responsible for some or all of a particular cost, Scion may allocate the cost among the Funds in its discretion.

Money-market funds and other vehicles which can be held by a Fund also charge internal management fees. Such charges, fees, and commissions are exclusive of, and in addition to Scions’ Management Fee, and Scion does not receive any portion of these commissions, fees, and costs.

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

As noted above, Scion or the General Partner, which is an affiliate of Scion, receives annual incentive-based allocations/fees from its Clients, which are based on a percentage of the net capital appreciation of the Clients’ assets. These performance-based allocations/fees may potentially create an incentive for Scion to favor Clients paying higher performance-based fees versus other Clients, who pay lower management fees and/or performance-based fees, when allocating investment opportunities. They also may create an incentive for Scion to make more speculative investments than would otherwise be made, or make decisions regarding the timing and manner of realization of investments differently than if such allocations were not received.

Scion has implemented policies and procedures for allocating transactions and opportunities among its Clients in a manner it believes to be equitable over time, taking into account similarities and differences among the various accounts and in particular relating to activities of other accounts in which Scion or its personnel or affiliates have material interests. Scion believes that, notwithstanding the potential for conflicts of interest, differences could arise among its Clients due to appropriate factors such as differences in investment objectives and strategies (including directional- and concentration-related risk preferences), investment restrictions and guidelines, cash availability, limitations on the availability of particular investment or transactional opportunities, and differences in liquidity needs (e.g., withdrawal or redemption rights and activities). There is no guarantee that a Client will participate in every investment opportunity identified by Scion.

Because Scion manages more than one Client, there may be conflicts of interest over its time devoted to managing any one account and allocating investment opportunities among all accounts that it manages. For example, Scion selects investments for each Client based solely on investment considerations for that Client. Different Clients may have differing investment strategies, restrictions, guidelines and expected levels of trading. Scion may buy or sell a security for one type of client but not for another Client. Scion may give advice to, and take action on behalf of, any of its clients that differs from the advice that it gives or the timing or nature of action that it takes on behalf of any other client.

Scion is not obligated to acquire for any Client any security that Scion or its partners, managers, members or employees may acquire for its or their own accounts or for any other Client, if in Scion's absolute discretion, it is not practical or desirable to acquire a position in such security for that Client.

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

Scion provides investment advisory services to the Funds. Investors in the Funds include, but are not limited to, high net worth individuals, family offices, fund of hedge funds, endowments, foundations, trusts, charitable organizations, pension plans, and other corporate or business entities.

Details concerning applicable investor suitability criteria are set forth in the respective Fund's offering documents and subscription materials. The minimum commitment for an investor is outlined in the respective Fund's governing is \$1.5 million for the Onshore Fund and Offshore Fund, and \$0.5 million for the Value Fund. There is no minimum to establish a separate account. Scion and/or the General Partner maintain discretion to accept less than the minimum investment threshold. Each applicable investor in a Fund is required to meet certain suitability qualifications, such as being an "accredited investor" within the meaning set forth in Regulation D under the Securities Act, as amended; a "qualified client" as defined in Rule 205-3 under the Advisers Act; or a "qualified purchaser" as defined in Section 2(a)(51) of the Investment Company Act, as amended.

Scion has entered into agreements (collectively, "Side Letters") with one or more investors in the Funds which provide such investor(s) with additional and/or different rights (including, without limitation, with respect to Management Fees, performance-based fees, withdrawals, access to information, minimum investment amounts, liquidity terms and aggregate investment amount accepted) than such investors have pursuant to the general terms of the applicable Fund. Scion is not required to notify, or provide copies to, any or all of the other investors of any such Side Letters or any of the rights and/or terms or provisions thereof, nor is Scion required to offer such additional and/or different rights and/or terms to any or all of the other investors.

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

### *Methods of Analysis and Investment Strategies Generally*

#### Investment Strategy

The Master and Value Funds seek long-term capital appreciation and will invest, primarily, in equity, debt, and derivative instruments globally.

Scion may cause its Clients to take either “long” or “short” positions, as opportunities warrant. In addition, Scion may apply both long-term and short-term strategies in individual securities.

Scion will consider and invest in opportunities of any type that Scion considers attractive in the circumstances. Scion’s investment professionals have specific prior experience managing portfolios employing equities, special situations, bonds, derivatives, macroeconomics, and activism, and Scion may employ any one or more of these strategies.

There are no obligations on Scion to pursue any particular investment or portfolio construction technique at any particular time.

There are no specific limits on the types of securities or other instruments in which Funds may invest, the types of positions they may take, the concentration of investments by sector, industry, country, class or otherwise, the amount of leverage Funds may employ, or the number or nature of short positions they may take. The General Partner may change the Funds’ investment approach or strategy at any time, if the General Partner considers doing so to be appropriate and in the Funds’ best interests.

Scion has broad discretion to employ a wide variety of investment techniques, even if they involve changes in or differ from the approaches in use by a Client at any particular time. Clients may hold a significant portion of its assets in cash during times when Scion considers attractive investment opportunities to be scarce, or if Scion’s investment process requires extended timelines.

#### Methods of Analysis

Scion plans to pursue Clients’ investment objectives primarily through fundamental research in pursuit of undervalued and/or misunderstood investment situations in the global theater. This fundamental research may take into account technical, macroeconomic, and other tactical approaches to the ever-changing securities marketplace. Investment in individual equities based on Scion’s fundamental, value-oriented analysis will often be a principal emphasis. However, at times investment theses may be based on macro trends and opportunities as much as individual value analysis. Scion may use both traditional and proprietary analysis and techniques to identify attractive short selling opportunities, largely for securities that Scion believes are overvalued and/or facing technical factors that Scion believes ought to depress the securities’ prices. Scion is not required to engage in short selling or to use any techniques for hedging purposes.

In addition to equities, Clients may invest and trade in any kind of instrument, including corporate debt securities, convertible securities, exchange traded funds, government securities, options,

warrants, equity swaps, credit default swaps, and derivatives of other types. While not a primary focus, the Master Fund and Value Fund may invest in instruments that are subject to restrictions on resale or for which there is no ready public market.

Scion understands that profitable strategies in the first half of the 2000s were not the same strategies that were profitable in the second half of that decade. And Scion understands that this is true for most decades in modern times. Dr. Burry has been credited as an innovator in the use of certain complex investment strategies now widely employed by other funds. Such innovation may be a feature of future strategies of Scion's Clients, even as specifics of such strategies cannot currently be specified; Scion's strategies and techniques are continually evolving and Scion will make investments that reflect that evolution in Scion's discretion.

Clients' portfolios will generally consist of a mix of positions that Scion believes provide an appropriate combination of opportunities and exposures, with diversification/concentration and hedging being affected significantly by the particular types of positions and instruments as well as the investment theses underlying those positions. Scion may employ leverage, including borrowing funds to buy securities, selling investments short, and using various derivatives strategies.

### Risk of Loss

There can be no assurance that Clients will achieve their investment objectives. Investing in securities involves risk of loss that Clients and Fund investors should be prepared to bear.

Scion does not guarantee or represent that any investment program will be successful. As with any investment, a Client or an Investor could lose some or all of its investment. An investment with Scion is not a complete investment program and should represent only a portion of a Client's or an Investor's overall asset management strategy. Among the risks involved with an investment with Scion are the following. This is not a complete list of the risks associated with an investment in the Funds. Please also refer to each Fund's offering memorandum for a more detailed description of such risks.

**Dependence on Investment Manager; Investment Discretion.** Client's prospects depend upon the Investment Manager's ability to develop and implement investment strategies that achieve the Client's investment objectives. The Investment Manager will select particular investments based on its analysis and subjective assessments of the variety of factors that it considers relevant to the prospects of those investments. Failures of that analysis or those assessments, as to particular investments or as to strategic direction and construction of the Client's portfolio as a whole, may cause the Client to incur losses or to miss profit opportunities on which it could otherwise have capitalized.

**Investment Selection; Subjective Judgment.** The Investment Manager will select investments based on its analysis and subjective assessment of a wide variety of factors that it considers, from time to time, relevant to the prospects of those investments. Failures of that analysis or those assessments, for particular investments or for strategic direction and construction of the Client's portfolio as a whole, may cause the Client to incur losses or to miss profit opportunities. Areas in which the Investment Manager's skill and potentially subjective judgment may be particularly important include the following.

- *Market Judgment.* The Investment Manager's personnel will apply judgment as to overall market conditions and directions as a core part of implementing the Fund's strategy at any particular time. The greater the role such judgment plays during any particular period, the more unpredictable and inconsistent a trading strategy is typically expected to be.

- *Fundamental Analysis.* Fundamental analysis, based on the theory that market prices do not always incorporate all knowable economic and other relevant data, is subject to the risk of inaccurate or incomplete market information, as well as faulty analysis of known information. In addition to the risk of shortcomings in analysis, investments made based upon fundamental analysis are subject to significant losses when market sentiment leads to material discounting of market prices from the prices indicated by fundamental analysis (as in the case of "flights to quality" when the demand for certain risky investment instruments plummets) or when technical factors, such as price momentum encouraged by trend following, dominate the market.

- *Risk Management.* The Investment Manager actively causes the Client to take risks, directly exposing it to potential loss under a wide variety of market conditions. It attempts to identify, measure, and monitor risks associated with the investment activities and may choose to hedge or otherwise mitigate risks it identifies. However, the Investment Manager may fail to identify or anticipate a wide variety of risks that may adversely affect the Client or the hedging or other risk mitigation techniques may not have the desired effect, potentially exposing the Client to material losses.

- *Technical Analysis.* The Investment Manager may incorporate elements of technical analysis —analysis of historical and current market data — into its investment decision making. Technical analysis is subject to the risk that unexpected fundamental factors or other factors that were not present during the periods from which historical data were generated on which decisions are based may arise and become dominant, at least for a time. Among other things, an influx of new participants in a particular market, structural changes in the markets, the introduction of new financial products, and other developments could materially adversely affect the validity of inferences from historical data and thus the profitability of investments based on technical analysis.

**Reliance on Key Personnel.** Clients' and the Investment Manager's operations are substantially dependent upon the skill, judgment and expertise of Dr. Burry, and the Investment Manager's other investment personnel, if any. The death, disability, departure or other unavailability of any key personnel could have a material and adverse effect on the Client and the Investment Manager.

**Possibility of Losses; Not a Complete Investment Program.** An investment in a Fund is not intended to be, and should not be considered, a complete investment program for any investor. If Scion's strategies are not successful, or if the Investment Manager is unable to implement them effectively, Clients could lose some or all of their capital. For these reasons an investment by a Client should be considered speculative and is appropriate only for sophisticated and experienced investors who are able to bear the risk of loss of their entire investments.

**Investments in Undervalued Securities.** Scion will invest in securities it believes are undervalued. Identifying investment opportunities in undervalued securities is a difficult task, and Scion cannot provide any assurance that Scion will succeed at it; Clients may acquire securities that Scion considers undervalued but that in fact are not. While investments in undervalued securities offer

opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. In addition, Clients may be required to hold them for a substantial period before realizing their anticipated value. Returns generated from Clients' investments may not adequately compensate for the business and financial risks assumed.

**Concentration of Investments.** Clients may at times have a relatively large portion of their capital exposed to a relatively small number of positions and/or a particular industry. Losses in one or more large positions, or a downturn in an industry in which Clients are concentrated, could materially adversely affect a Client's performance and could have a materially adverse effect on a portfolio's overall financial condition.

**Idle Funds.** There have been and may continue to be significant periods when Clients have a majority of their assets in cash or cash equivalents. This may be because, among other things, Scion is not able to locate investments it considers both attractive and suitable for Clients' purposes. Particularly during periods when overall interest rates are low, the investment return on such "idle funds" will be less than the overall return objective Scion seeks through Clients' investment programs. The Management Fee that Scion receives is based on the entire value of a Client's portfolio, including the portion attributable to cash and cash equivalents.

**Short Selling.** Scion may sell securities short in a Client's portfolio. In a short sale, a Client sells securities it does not own, in the expectation that the market price will decline and the Client will be able to buy replacement securities later at a lower price. To accomplish this, the Client borrows the securities from a broker or other third party. It "closes" the position by "returning" the security (buying a replacement security on the lender's behalf). This "return" obligation does not typically have a specified "maturity" date and the lender generally may require replacement of the securities whenever it chooses. A short sale theoretically involves the risk of unlimited loss; the price at which the Client must buy "replacement" securities could increase without limit.

As collateral for its return obligation, the Client must leave the proceeds of its short sales with the lender—generally a Prime Broker. Ordinarily all the Client's assets held by a Prime Broker will serve as collateral not only for the Client's short sale return obligation, but also for any other credit the Prime Broker extends and any other obligations the Client owes the Prime Broker. If the amount of the Client's return obligation were to increase significantly due to increases in a short-sold security's price, or if the value of collateral were to decrease, the Client could be required to deliver additional cash or other collateral to the relevant Prime Broker. But, if substantially all the Client's assets were already serving as collateral, it is unlikely that the Client would be able to meet such a demand, and the Prime Broker would likely cause the Client to "buy-in" or "close" some or all of its short positions. Such a "buy-in" could well be at a time and on terms that are adverse to the Client. Lenders such as the Prime Brokers have great discretion in their decisions regarding adequacy of collateral, and the Client's short-selling activities, and actions that depend on availability of assets not being relied on for collateral could be curtailed, potentially significantly and without notice.

**Portfolio Leverage.** If Clients borrow to leverage their investments (margin borrowing), that borrowing would probably be secured by the Clients' securities and other assets. Margin borrowings typically allow the lender to demand an increase in the collateral that secures the Clients' obligations, and if the Clients were unable to provide additional collateral, the lender could liquidate

the collateral to satisfy the Clients' obligations. Forced liquidation could have extremely adverse consequences, including sales at disadvantageous times and prices and the acceleration of tax consequences.

**Limited Liquidity of Some Investments.** Some of the investments may be relatively illiquid. An investment may be illiquid because it is thinly traded or because the Clients' position in it is large in relation to the overall market for the security. Clients may own securities that are relatively liquid when acquired but that later become illiquid. Clients may not be able to liquidate illiquid positions if the need were to arise; rapid sales of such securities could depress the market value of those securities, reducing the Clients' profits, or increasing its losses, in the positions. In addition, Clients may buy securities that are not immediately saleable in the public markets.

**Small and Medium Capitalization Stocks.** Clients may invest in stocks of companies with relatively small- or medium-sized market capitalizations, which can involve higher risks than investments in stocks of larger companies. For example, prices of small-capitalization and some medium-capitalization stocks are often more volatile than prices of large-capitalization stocks and the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) may be higher than for larger, "blue-chip" companies. In addition, thin trading in some small- and medium-capitalization stocks may make those stocks less liquid than large-capitalization stocks.

**Derivatives.** Clients may invest in derivative instruments. Derivative instruments involve a variety of material risks, including, in some cases, extremely high embedded leverage. The derivatives markets are frequently characterized by limited liquidity, which can make it difficult as well as costly to close out open positions in order either to realize gains or to limit losses. The pricing relationships between derivatives and the instruments underlying them may not correlate with historical patterns, resulting in unexpected losses.

Trading options is highly speculative and may entail risks greater than investing in other securities. Option prices are generally more volatile than other securities' prices. When trading options, Clients are speculating on market fluctuations of securities and securities exchange indices while investing only a small percentage of the value of the securities underlying the options. A change in the market price of the underlying securities or underlying market index would cause a much greater change in the price of the option contract. In addition, if Clients buy options that they do not sell or exercise, they will suffer the loss of the premium paid. To the extent Clients sell (write) options and must deliver the underlying securities at the option price, Clients have a theoretically unlimited risk of loss if the price of the underlying securities increases. If Clients must buy those underlying securities, it risks the loss of the difference between the market price of the securities and the option price. Any gain or loss derived from the sale or exercise of an option will be reduced or increased, respectively, by the amount of the premium paid. The expenses of option investing include commissions payable on the purchase and on the exercise or sale of an option.

Futures can provide a form of leverage, allowing Clients to participate in market price fluctuations of indices, interest rates or commodities underlying futures (or options on futures), while only investing a small percentage of the value of those underlying indices, rates, or commodities as margin. Trading in futures is highly speculative and may entail risks that are greater than investing in securities, including increased volatility relative to other securities and increased exposure resulting from leverage. Scion is not registered as either a "commodity pool operator" or a "commodity trading adviser."

Clients' futures and options activities may include futures and options traded in non-U.S. markets. The risks of these activities may be greater than those of trading in futures and options on U.S. exchanges. For example, foreign futures and options are cleared on and subject to the rules of a foreign board of trade. Neither the CFTC nor the National Futures Association (the "NFA") regulates activities of any foreign board of trade, including transaction execution, delivery, and clearing. Moreover, these agencies have no enforcement authority over foreign boards of trade. In addition, funds provided for foreign futures and options may not be provided the same protections as funds received in respect of U.S. transactions.

**Over-The-Counter Derivatives.** Some of the derivatives Clients may trade may be principal-to-principal or "over-the-counter" contracts between Clients and third parties entered into privately, rather than on an established exchange. These could include security-based swaps, swaps, contracts for differences, forward contracts, and other OTC derivative arrangements involving or relating to, among other things, specific securities (including total return swaps), interest rates (including caps and floors), or currencies. In all these types of transactions, Clients will be subject to the risk that a counterparty is unable or refuses to perform. Clients will not be afforded the regulatory protections of an exchange or its clearinghouse, or of a government regulator that oversees the exchange or clearinghouse, if a counterparty fails to perform. In privately negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices.

**Swap Agreements.** A swap is an individually negotiated, non-standardized agreement between two parties to exchange cash flows (and sometimes principal amounts) measured by different interest rates, commodity prices, exchange rates, indices or prices, with payments generally calculated by reference to a principal ("notional") amount or quantity. Swaps and similar derivative contracts are not currently traded on exchanges; rather, banks and dealers act as principals in these markets. As a result, the Client is subject to the risk that its counterparties will be unable or unwilling to perform their obligations. Swaps may be subject to various other types of risk, including market risk, liquidity risk, counterparty credit risk, legal risk and operations risk. In addition, Swaps can involve considerable economic leverage: depending on their structure, Swaps may increase or decrease exposure to the markets for the underlying instruments (*e.g.*, the markets for corporate credit, equity securities, long-term or short-term interest rates, foreign currency values). Swaps can take many different forms and are known by a variety of names. Depending on how they are used, Swaps may increase or decrease the overall volatility of a portfolio.

The most significant factor in the performance of a Swap is the change in the specific interest rate, currency, equity index or other factors that determine the amounts of payments due to and from the Client. If a Swap calls for payments by the Client, the Client must be prepared to make those payments when due. In addition, if a counterparty's creditworthiness declines, the value of a Swap with the counterparty can be expected to decline, potentially resulting in losses by the Client.

**Credit Default Swap Agreements.** The Client may invest in credit default swaps. A credit default swap typically requires the seller to pay to the buyer, if a particular reference entity experiences specified credit events, the difference between the notional amount of the contract and the value of a portfolio of securities issued by the reference entity that the buyer delivers to the seller. In return, the buyer agrees to make periodic payments equal to a fixed percentage of the notional amount of the contract. The Client may also sell credit default swaps on a basket of reference entities as part of a synthetic collateralized debt obligation transaction.

As a buyer of credit default swaps, the Client will be subject to certain risks. Where the Client does not own the debt securities deliverable under a credit default swap, the Client will be exposed to the risk that deliverable securities will not be available in the market, or will be available only at unfavorable prices, as in a so-called “short squeeze.” While certain credit default swap market auction protocols reduce this risk, it is still possible that an auction will not be organized or will not be successful. In certain instances of issuer defaults or restructurings (for those credit default swaps for which restructuring is specified as a credit event), it has been unclear under the standard industry documentation whether or not a “credit event” triggering the seller’s payment obligation had occurred. Certain industry measures are intended to reduce this uncertainty and create uniformity across the market, but it is possible that those measures will not be fully effective. In either of these cases, the Client would not be able to realize the full value of the credit default swap upon a default by the reference entity.

As a seller of credit default swaps, the Client will incur leveraged exposure to the credit of the reference entity and become subject to many of the same risks it would incur if it held the reference entity’s debt securities. However, the Client will not have any legal recourse against the reference entity and will not benefit from any collateral securing the reference entity’s debt obligations. In addition, the credit default swap buyer will have broad discretion to select which of the reference entity’s debt obligations to deliver to the Client following a credit event and will likely choose the obligations with the lowest market value in order to maximize the payment obligations of the Client.

If current interest rate spreads widen or the prevailing credit premiums on credit default swaps increase, the amount of a termination or assignment payment due from the Client to the credit default swap counterparty could increase by a substantial amount.

The proper tax treatment of credit default swaps and other derivatives may not be clear. The tax environment for derivatives is evolving and changes in the taxation of derivatives may adversely affect the value of derivatives held by the Client.

Given the recent sharp increases in volume of credit derivatives trading in the market, settlement of credit default swaps may also be delayed beyond the time frame originally anticipated by counterparties. Such delays may adversely affect the Client’s ability to otherwise productively deploy any capital that is committed under those contracts.

Various governmental entities have indicated that they intend to regulate the market in credit default swaps. It is difficult to predict the impact of any such regulation on the Client, but it may be adverse (including making the Client ineligible to be a “seller” of credit default swaps).

**Total Return Swaps.** As a buyer of total return swaps, the Client will be obligated to make periodic payments in exchange for the total return on a referenced asset, including coupons, interest and the gain or loss on such asset over the term of the swap. The Client may be required to maintain collateral with the total return swap counterparty. If the Client fails to fulfill its payment obligations or fails to post any required collateral under a total return swap, the total return swap counterparty may declare an event of default and, as a result, the Client may be required to pay swap breakage fees, suffer the loss of the amounts paid to the counterparty and forego the receipts from the counterparty of further total return swap payments.

**Convertible Securities, Rights and Warrants.** A Client may invest in hybrid securities that may be exchanged for, converted into, or exercised to acquire a predetermined number of shares of an issuer's common stock at the option of the holder during a specified time period (such as convertible preferred stocks, convertible debentures, stock purchase rights, and warrants). Convertible securities generally pay interest or dividends and provide for participation in the appreciation of the underlying common stock but at a lower level of risk because the yield is higher and the security is senior to common stock. Convertible debt securities purchased by the Fund that are acquired for their equity characteristics are not subject to minimum rating requirements.

The value of a convertible security is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value" (the security's worth, at market value, if converted into the underlying common stock). The credit standing of the issuer and other factors may also affect the investment value of a convertible security. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security is increasingly influenced by its conversion value.

Convertible securities may also include warrants, often publicly traded, that give a holder the right to purchase at any time during a specified period a predetermined number of shares of common stock at a fixed price but that do not pay a fixed dividend. Their value depends primarily on the relationship of the exercise price to the current and anticipated price of the underlying securities.

**Currency Fluctuations.** Clients invest in securities denominated in foreign currencies. A change in the value against the U.S. dollar of a currency in which an investment is denominated causes a corresponding change in the U.S. dollar value of the investment. Some foreign countries maintain their currencies at artificial levels relative to the U.S. dollar. This type of system can lead to sudden and large adjustments in the currency, which can in turn result in losses to foreign investors. The Client may enter into futures and foreign currency transactions to attempt to reduce its foreign currency exposure. These techniques may reduce but will not eliminate the risk of loss due to unfavorable currency fluctuations and they tend to limit any potential gain that might result from favorable currency fluctuations. Some countries restrict conversion of their currency into foreign currencies, including the dollar, and for some currencies, there is no significant foreign exchange market.

**Currencies and Foreign Exchange.** Clients may take positions in currencies, either directly or through the use of derivative instruments. While it may do so to hedge currency exposure on other investments, it may also do so to take advantage of what the Investment Manager considers trading opportunities. The foreign exchange markets can be news-driven and can be unexpectedly volatile and can be affected by non-market forces such as actions of various governments, as described elsewhere in this memorandum.

**Distressed Companies.** Clients may invest in companies that are distressed or have experienced difficulties. These companies present greater risks than healthy companies; a bankruptcy could cause Clients to lose their entire investment or Clients could be forced to accept cash or securities with a value less than the Clients' investment.

**Debt Instruments, Generally.** Clients may invest in debt (fixed-income) instruments of all types. It may also sell such instruments short or trade in derivative instruments based on or related to them (such as credit default swaps). The Fund's debt investments may include investment-grade corporate debt, below-investment-grade ("high-yield" or "junk") corporate debt, mortgage-backed securities, other asset-backed securities, corporate loans, U.S. government bonds, (including agency indebtedness that is not backed by the full faith and credit of the U.S. government), municipal debt of all types, non-U.S. sovereign debt, trade receivables, warehouse receipts, and other credit-related claims or instruments. Particular types of debt instruments are subject to various risks that are specific to the ways in which they are structured, the industries and markets in which their issuers participate, the assets underlying the instruments, the impact of applicable tax or regulatory factors, and numerous other specific factors. But the values and prices of all debt instruments are subject, in substantially the same way (albeit with differing levels of sensitivity), to credit risk, market risk, and interest rate risk.

- *Credit risk* is the risk that a fixed income security will decline in price, or fail to pay interest or principal when due, because the issuer of the security experiences a decline in its financial status.
- *Market risk* relates to the changes in the market perceptions of the risk of an issuer, country, or region.
- *Interest rate risks* include: (i) if interest rates increase, the value of fixed income securities will generally decline; (ii) during periods of rising interest rates, the average life of certain fixed income securities may be extended because of slower than expected principal payments, which may lock in a below market interest rate, increase the security's duration, and reduce the value of the security (*i.e.*, extension risk); and (iii) during periods of declining interest rates, the issuer of a security may exercise its option to prepay principal earlier than scheduled, forcing investment in lower yielding securities (*i.e.*, call or prepayment risk).

The following is a list of some of the types of debt instruments in which Clients might invest or trade and some of the particular risks that may be involved in those instruments.

*Non-Investment Grade (High Yield) Instruments.* Bonds and other debt instruments are often traded in established securities markets, and their prices vary based on factors that influence those markets. Non-investment grade, or "high yield" instruments, are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be speculative. In the U.S., these are generally debt securities that are not rated or are rated below investment grade (for example, below BBB by Standard & Poor's Rating Group or Baa by Moody's Investors Service, Inc.) by a nationally recognized statistical rating organization. They are also generally considered to be subject to greater risk than securities with higher ratings because their yields and prices tend to fluctuate more than those for higher-rated instruments, and the market for lower-rated securities is less liquid and less active. Trading and investing in non-investment grade instruments can be highly speculative.

*Bank Loans and Participations.* Bank loans, participations in bank loans, and similar investments 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 from collateral securing the obligations; and (iv) limitations on the Fund's ability to directly enforce its rights. They may also involve transactional risks: the Client may experience significant delays in the settlement of certain loan and/or bank debt transactions, particularly in the case of investments that are or become distressed. Until a transaction is settled, the Client will be subject to counterparty insolvency risk. Pursuant to certain insolvency laws, a counterparty may have the ability to reject or terminate an unsettled loan transaction. If a counterparty rejects an unsettled transaction, the Client might lose any increase in value with respect to such loan that accrued while the transaction was unsettled. The Client may also invest in loan participations where it has no direct contractual relationship with the underlying borrower. In those cases, the Client generally would depend on the lender to enforce its rights and obligations under the loan arrangements in the event of a borrower default and would generally have no voting rights as to the borrower, as the lenders typically retains those rights. Participation investments are subject to the credit risk of the lender (as well as the borrower) since they will depend upon the lender forwarding payments of principal and interest received on the underlying loan. A lender could default on its obligations to the Client, resulting in substantial losses to the Client.

*Non-Traditional Debt Investments.* The Client may acquire all manner of obligations, including trade or other receivables, possibly issued by credit-impaired obligors. These receivables, claims, or other obligations may not have any maturity and may not be secured. As with other types of debt instruments, they involve the risk of loss in case of default or insolvency of the obligor, particularly if the obligation is unsecured. In addition, these obligations may be subject to payment defenses such as warranty claims, claims for failure to provide the product or services, or counterclaims for breaches by the supplier of the underlying goods or services. They are generally relatively illiquid.

*Municipal Securities.* Municipal securities are generally issued or guaranteed by a state or local government or agency. They may be issued to raise money for a public purposes, including general financing for or financing for public facilities, or for private purposes, including financing for specific projects. They may be issued in anticipation of future revenues and may be backed by the full taxing power of a government, the revenues from a specific project, or the credit of a private organization. Their value may be affected by uncertainties about a specific municipality or other issuer or in the municipal market generally, possibly related to legislation or litigation involving the taxation of municipal securities or the rights of municipal securities holders. In recent years, the credit quality of many local governments has degraded significantly and holders of municipal securities have faced significant losses due to municipal insolvencies. Uncertainties about particular governments' obligations, including pensions and unfunded benefits obligations, have significantly negatively affected the markets for many municipal securities and may be expected to continue to do so.

*Non-U.S. Sovereign Debt.* The Client may invest in securities issued by non-U.S. sovereign nations directly or through the use of derivatives. The default risk of such sovereign issuers and therefore the market prices of these instruments varies widely from country to country and by issuer within particular countries. It is also subject to wide fluctuation based on both local and global political factors. For example, developments in Europe have raised doubts about the ability of certain European countries to meet their sovereign debt obligations. This has caused significant upheavals in the global markets for a variety of types of securities, particularly some European nations' debt securities. The fallout from these developments could have a significant impact on the stability and

credit ratings of various European countries and financial institutions with exposure to European sovereign debt, and even the continued viability of the European Union and the Euro currency. The markets for sovereign debt instruments are subject to profound intervention by governments, which could also significantly affect prices and liquidity of the instruments. Such instruments are subject to currency risks described elsewhere in this memorandum.

*Asset-Backed Securities.* Asset-Backed Securities (“ABS”) typically represent an interest in a pool of assets such as credit card receivables, automobile loans, or home equity loans, have yield and maturity characteristics corresponding to their underlying assets. Unlike traditional debt securities, which may pay a fixed rate of interest until maturity when the entire principal amount comes due, payments on certain ABS include both interest and a partial payment of principal. This partial payment of principal may consist of a scheduled principal payment as well as an unscheduled payment from the voluntary prepayment, refinancing, or foreclosure of the underlying loans. As a result of these unscheduled payments of principal, or prepayments on the underlying securities, the price and yield of ABS can be adversely affected. For example, during periods of declining interest rates, prepayments can be expected to accelerate, and the Client would be required to reinvest the proceeds at the lower interest rates then available. Prepayments of loans that underlie securities purchased at a premium could result in capital losses because the premium may not have been fully amortized at the time the obligation is prepaid. In addition, like other interest-bearing securities, the values of ABS generally fall when interest rates rise, but when interest rates fall, their potential for capital appreciation is limited due to the existence of the prepayment option.

*Mortgage-Backed Securities.* Mortgage-backed securities are securitized pools of mortgage loans. They include Residential Mortgage Backed Securities (RMBS) and Commercial Mortgage Backed Securities (CMBS). The underlying mortgage loans may be of various types (including Alt-A, subprime and pay-option adjustable rate mortgages, in addition to traditional first-lien mortgages). The securities the Client buys (or sells) may represent any of a number of types of participations in the principal and interest payments from those mortgages. They are subject to all the risks inherent in asset-backed securities and, in addition, to risks specific to their underlying assets. These include, among others (i) the impact of prepayment and perceptions of prepayment patterns on prices of the securities, (ii) the impact on underlying real estate conditions, borrower creditworthiness, and local default rates and other economic conditions and changes, (iii) the impact of real estate market forces on prepayment patterns and foreclosure realization, (iv) changes in the structure and effectiveness of government-sponsored enterprises that participate in the mortgage markets, such as Fannie Mae, Freddie Mac, and Ginnie Mae, and (v) changes in regulations that affect origination, collection, and securitization of mortgage loans.

*Other Securitized Products.* Securitized products may include, in addition to the asset-backed investments described above, collateralized debt obligations and synthetic credit portfolio transactions. Structured products are generally subject to the risks of asset-backed securities, including prepayment, credit, liquidity, market, structural, legal, and interest risks. They may also be subject to special risks related to their particular structure. For example, synthetic portfolio transactions may be structured with two or more tranches, each of which receives different proportions of the interest and principal distributions on a pool of credit assets. The yield to maturity of any given tranche may be extremely sensitive to the default rate in the underlying reference portfolio.

*U.S. Government Securities.* Debt instruments issued or guaranteed by the U.S. Treasury or by an agency or instrumentality of the U.S. Government are generally considered high quality and less affected by credit quality factors than other instruments. However, not all U.S. Government securities are backed by the full faith and credit of the United States. For example, securities issued by the Federal Farm Credit Banks Funding Corporation are supported only by the credit of the entity that issued them. Even full faith and credit securities are subject to price fluctuations caused by interest rate fluctuations as well as market disruptions.

**Securities Lending.** The Client may lend portfolio securities either directly or through programs operated by financial intermediaries. As a creditor, the Client runs the risk that borrowers of its securities may fail to return borrowed securities on demand or at all. A borrower's failure to return securities on a timely basis could cause the Client to default on obligations it owes to third parties or it could force the Client to make other arrangements to satisfy those obligations (such as borrowing equivalent securities elsewhere), resulting in penalties and unexpected costs. The Client could lose the entire value of the lent securities. While borrowers typically provide securities as collateral for their obligations to return borrowed securities, that collateral is typically invested in instruments the value of which could decline, resulting in losses to the Client. The institutions that operate securities lending programs in which the Client participates may make mistakes in administering the lending and collateral investing arrangements, resulting in delays and potential losses for the Client.

**Exchange Traded Funds.** Clients may invest or trade in Exchange Traded Funds (*ETFs*), index-related instruments, and other instruments or pooled vehicles as a way of hedging risks related to particular industries, sectors, or markets in connection with its other investments. Doing so will subject Clients to hedging-related risks. It may also include the risk that an ETF or index-related instruments may not effectively reflect the performance of the index, industry, or other market it is intended to replicate.

**Hedging.** Scion may use hedging strategies to the extent it considers appropriate in light of current circumstances and portfolio composition. It may do so using short positions in one instrument to hedge long positions in another instrument, and vice versa. It may use instruments based on stock indices or other indices to hedge against broader market exposure. Hedging strategies involve transaction costs and may inherently limit or reduce the potential for profit. Hedges are often imperfectly inversely correlated with the underlying exposure Clients seeks to hedge and, to the extent that is the case, can subject Clients to additional risk, if prices involved in the hedging position move against Clients. Index-related instruments in particular will inherently correlate imperfectly with particular portfolio positions. Other risks that may be involved in hedging include: (i) possible illiquidity in the market for closing out a hedging position; (ii) interest rate, spread, or other broad market movements not anticipated by the Investment Manager; (iii) the Client's obligations to meet margin or other payment requirements; (iv) a counterparty's default or refusal to perform; and (v) impact that required segregation of the Client's assets to cover hedge-related obligations may have on portfolio management or the Client's ability to meet short term obligations. Scion will not attempt to hedge all market or other risks inherent in its positions, and will hedge certain risks, if at all, only partially. Specifically, the Investment Manager may choose not, or may determine that it is economically unattractive, to hedge certain risks — either in respect of particular positions or in respect of the Client's overall portfolio. The Client's portfolio composition will commonly result in various directional market risks remaining unhedged.

**Reports, Books and Records.** Scion may provide certain investors with reports and access to financial or portfolio-related information that is more detailed than the reports and information provided to investors generally, and/or to provide financial and portfolio-related information more rapidly and/or more frequently than it provides that information to investors generally.

**Asset Valuation.** Scion has substantial discretion in determining the value of Clients' assets. Scion may have incentives to assign higher values to securities than those securities could be sold for. Assigning a high value to investments would increase, or give rise to, Incentive Allocations or reduce the amount of loss carryforward to be recovered before an Incentive Allocation may be made in a subsequent period. And any reduction in the value of assets would reduce the amount of Management Fee to which Scion is entitled.

**Changes in Investment Strategies.** Scion has broad authority to expand, contract or otherwise change Clients' activities without notice to, or the consent of, the Fund investors. It will opportunistically implement whatever strategies or discretionary approaches it believes from time to time may be best suited to prevailing market conditions. For some of these strategies, no specific "risk factors" are described in this brochure. Nevertheless, those strategies should be considered to be speculative, volatile and, in general, no less risky than other strategies more fully described in this brochure. Over time, the strategies Scion implements can be expected to expand, evolve, and change, perhaps materially. Scion will not be required to implement any particular strategies and may discontinue employing any particular strategy, whether or not that strategy is specifically described in this brochure, and without notice to investors. Any change in strategies could expose Clients' capital to additional risks, which may be substantial.

**Limited Liquidity in the Funds.** An investment in the Funds is illiquid and is not suitable for an investor who needs liquidity. There is no public market for interests in the Funds and there are limitations on the ability to transfer such interests. Although withdrawals are permitted, they are subject to several limitations. Investors generally may not withdraw capital for 24 months following the investment, and then may withdraw such capital only at specified withdrawal dates in certain amounts. Investors may not withdraw capital that is attributable to Designated Investments.

**Counterparty and Custody Risk.** Financial institutions with which Clients do business, including the Prime Brokers or counterparties that hold assets as collateral, could become insolvent, which may result in Clients not being able to recover all or a portion of their assets either permanently or for some years.

Clients must place most of their assets in the custody of institutions, such as brokerage firms and banks, which may hold those on the books of depositaries and other intermediaries in the institutions' own name (*i.e.*, in "street name"). The Client is subject to the risk that these firms, as well as other brokers, counterparties, clearinghouses, or exchanges with which the Client deals, could default on their obligations to the Client, causing material losses to the Client. Bankruptcy or fraud at one of these institutions could also impair the Client's operational capabilities or capital position. Securities and other assets the Client deposits with custodians or brokers may not be clearly identified as being the Client's assets, causing the Client to be exposed to credit risk with regard to those custodians or brokers. The Client generally will only be an unsecured creditor of its trading counterparties in the event of bankruptcy or administration of those counterparties and in some jurisdictions the same may be true of the Client's relationship to its brokers. The Client may

attempt to limit its brokerage and custody transactions to well capitalized and established banks and brokerage firms in an effort to mitigate these risks, but the collapse in 2008 of the seemingly well-capitalized and established Bear Stearns and Lehman Brothers demonstrates that there are limits to the effectiveness of this approach in avoiding counterparty losses.

**Reliance on Technology; Cybercrime.** Scion and its Clients rely heavily on computer hardware and software, online services, data feeds, trading platforms, and other computer-related and communications technology and equipment to implement Scion's strategies and investment and trading activities. The Client's custodians and counterparties, including prime brokers and exchanges, also rely critically on such systems and technologies. Should events such as computer data theft, "worms," viruses, other cyber-attacks, and/or power failures cause failures or disruptions in the operation of any of those systems or technologies, Scion and the Clients could experience losses, liabilities, or other adverse effects that Scion may be unable to prevent or to mitigate.

In particular, Scion and the Clients are subject to risks associated with a breach in its cybersecurity. Cybersecurity is a generic term used to describe the technology, processes, and practices designed to protect networks, systems, computers, programs, and data from "hacking" by other computer users, other unauthorized access, and the resulting damage and disruption of hardware and software systems, loss or corruption of data, and misappropriation of confidential information. If a cybersecurity breach occurs, Scion and the Client may incur substantial costs, including those associated with: forensic analysis of the origin and scope of the breach; increased and upgraded cybersecurity; investment losses from sabotaged trading systems; identity theft; unauthorized use of proprietary information; litigation; adverse investor reaction; the dissemination of confidential and proprietary information; and reputational damage. Any such breach could expose both the Client and Scion to civil liability as well as regulatory inquiry and/or action. In addition, any such breach could cause substantial withdrawals from a Fund. Investors could also be exposed to additional losses as a result of unauthorized use of their personal information.

**General Economic and Market Conditions; Disruptions.** Clients' investment results will be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, trade barriers, currency exchange controls, and national and international political circumstances. These and other general economic and market-oriented factors may affect the level and volatility of securities prices and the liquidity of the Client's investments, in turn potentially impairing the Client's profitability or resulting in losses. In particular, volatility and illiquidity may be increased by factors in countries and markets in which the Client invests such as: relatively shallow levels of trading; relatively strong impact of central bank intervention in the foreign exchange markets; the relatively large impact of investment funds moving in and out of those markets; relatively poor levels and quality of information disclosure by companies; relative laxity of regulations covering the corporate governance of listed companies; and relatively under-developed regulations covering the trading of securities.

Developments and disruptions in financial and securities markets generally can significantly affect the prices of securities in which Clients invest, our ability to assess the prospects of issuers of those securities, and our ability to adapt exposures accordingly. Developments and disruptions may be global in nature or may occur in particular markets, but even developments outside of markets in which an account is invested may affect securities prices within those markets. Among the economic and financial attributes and aspects in which rapid developments have in the past had significant effects on the value and performance of equity portfolios are interest rates, the

availability of credit, liquidity of particular types of investments, political change or unrest, increases in unemployment, recession, inflation, or other changes in economic conditions, terrorist attacks or war, natural disasters such as wildfire, hurricanes/typhoons, flooding, and earthquakes, nuclear or large-scale industrial or chemical incidents, and epidemics and pandemics.

In 2007 and 2008, a global “credit crisis” caused rapid and violent swings in all markets. The effects of that crisis on markets (including effects caused by governmental intervention, discussed below) may continue, and markets may be less predictable than they historically have been. In the summer and early fall of 2011 global economic disruptions caused additional dramatic swings in securities prices.

In the winter of 2020, an outbreak of Coronavirus (or COVID-19) created sudden and enormous economic and social uncertainty throughout the world, causing among other things dramatic declines in securities prices over a very short period, extreme volatility, and significant reduction in securities market liquidity. As of March 2021, the disruptions from that pandemic continues. Disruptions to commercial activity arising from continued “social distancing” practices (including quarantines, “shelter-in-place” or lock-down directives) and travel restrictions, and/or developments regarding the severity of the outbreak could, among other things, imperil the fundamental viability of many existing businesses across the world, have enduring and materially adverse impacts on global, national, and local economies, disrupt historical pricing relationships or patterns in financial markets, reduce the availability of financing for businesses and investment activity (or increase the cost of such financing), and otherwise create long-lasting instability in financial and securities markets. Governmental reactions and intervention in fiscal, monetary, and financial market, at the national level (across the world) as well as at state and local levels, may be inadequate to mitigate adverse effects. They may even cause additional social unrest and market disruption and could possibly have long-lasting effects on a wide variety of business and financial activities, varying significantly in different countries and markets. “Social distancing” practices and travel restrictions have directly affected and will likely continue to affect our activities, including the ability of our personnel to travel in connection with investment activity (e.g., to monitor existing investments, to investigate potential investments, and to negotiate investment-related transactions). They will likely have similar effects on our service providers and counterparties. Any of those developments or consequences of the COVID-19 outbreak and reactions to it may materially and adversely affect clients’ investments and the performance of their accounts, in both the near and the long term and in ways it is impossible to predict.

Other types of disruptions could emerge, including as a result of political or economic developments outside the markets in which the Client mainly invests, that have similar, or even more dramatic, effects on the markets in which the Client invests. The Client could incur major losses in the event of disrupted markets and other extraordinary events in which historical pricing relationships become materially distorted. The risk of loss from pricing distortions can be compounded by the fact that in disrupted markets previously liquid positions can become illiquid, making it difficult or impossible to close them out if the markets are moving against them.

**Governmental Intervention in Markets.** Since 2008, financial crises and market disruptions have led to extensive new governmental intervention in financial markets and the structure and operation of financial institutions. Many governmental interventions have been unclear in scope and application and have included apparent inconsistencies, at times causing losses for market

participants who assumed either no intervention or intervention consistent with past precedent, contributing to confusion and uncertainty as to important market forces, and in some cases contributing, at least temporarily, to illiquidity in some markets.

It is impossible to predict what additional interim or permanent governmental intervention, whether through restrictions, investment incentives, or other actions may be imposed on financial markets, particularly if new disruptions occur, and it is impossible to predict the effect those restrictions or other actions may have on the Investment Manager's strategies or the Client's portfolio when implemented. Those effects could create or exacerbate market disruptions and further expose the Clients to risks of the kinds described above.

**Risks of Investing in Non-U.S. Securities.** Clients invest and trade in securities of non-U.S. companies or governmental entities, and in securities, commodity interests, and derivative contracts and instruments denominated in currencies other than U.S. dollars. Such securities and other instruments can subject Clients to risks not typically associated with investing in securities and commodity interests in the U.S., including risks due to currency fluctuations, political and economic instability, restrictions on investment and repatriation, withholding taxes, limited information about the issuer, limited liquidity and limited regulatory oversight. The following are some of the more significant risks associated with this type of investing.

- *Risks of Securities Markets.* Securities markets in foreign countries can at times be significantly more volatile than securities markets in the United States. Government regulation of exchanges, brokers and other market participants, and listed companies can be politically affected. Dealing and dealing-related costs, such as bid-offer spreads, commissions, and price sensitivity to trading volume in some foreign countries are generally higher as compared to such costs in the United States and other markets. In addition, settlement of trades in some non-U.S. markets is much slower and more subject to failure than in U.S. markets.
- *Uncertainty of Legal and Tax Systems.* The legal and tax systems of some foreign countries are less predictable than legal and tax systems in the United States, in particular as they may be affected by internal political disruptions. Reliance on oral administrative guidance from regulators and procedural inefficiencies can hinder legal remedies in many areas, including bankruptcy and the enforcement of creditors' rights. Moreover, companies may experience delays in certain foreign countries when obtaining governmental licenses and approvals. These factors contribute to the exogenous and systemic risks to which the Client may be exposed. There can be no assurance that current taxes in the countries in which the Client invests will not be increased or that additional sources of revenue or income, or various other activities, in those countries will not be subject to new taxes, charges or similar fees in the future. Any such increase in taxes, charges, or fees payable in connection with the investments or by the Client itself may reduce the returns to the Client or Limited Partners in the Funds. In addition, changes to tax treaties (or their interpretation) between countries in which the Client invests and countries through which the Client conducts its investment program, may have significant adverse effects on the Client's ability to efficiently realize income or capital gains. Consequently, it is possible that the Client may face unfavorable tax treatment resulting in an increase in the taxes payable by the Client on its investments. Any such increase in taxes could reduce the investment returns that might otherwise be available to the Client or Limited Partners in the Funds.

- *Less Public Information and Regulation.* There is less publicly available information about some securities traded in foreign countries. This may make it more difficult for the Investment Manager to stay informed of corporate action that may affect the price of a particular security. Further, many countries lack uniform accounting, auditing, and financial reporting standards, practices, and requirements. These factors can make it difficult to analyze and compare the performance of certain foreign countries' issuers and/or companies.
- *Risks of Natural Disasters and Unexpected Events.* A number of factors beyond the Investment Manager's control may have a material adverse effect on the prices of securities in the foreign countries or other countries in which it causes the Client to invest. These factors could include: natural disasters such as earthquakes, tsunamis, typhoons (hurricanes), high tides, and floods; military and other actions and heightened security measures in response to threats of such actions; international tensions between the United States and other nations, especially North Korea; instability in credit and subprime markets; health epidemics (such as severe acute respiratory syndrome, avian flu, or human swine flu); and radiation contamination from nuclear incidents (such as Fukushima, Japan). The Investment Manager cannot predict the extent and timing of any such events or how they might affect the value of securities and other assets held by the Client or the operations of Scion, the Administrator, or any of the Client's broker-dealers.
- *Local Intermediary Risks.* Certain of the Client's transactions may be undertaken through local brokers, banks, or other organizations in the foreign countries. The Client will be subject to the endogenous risk of default, insolvency, or fraud of such organizations. There can be no assurance that any money advanced to such organizations will be repaid or that the Client would have any recourse in the event of default. The collection, transfer, and deposit of bearer securities and cash expose the Client to a variety of risks including theft, loss, and destruction. The Client will also be dependent upon the general soundness of the banking systems throughout the foreign countries, which, in some cases, remain relatively under-developed or unstable compared to developed markets such as the U.S.
- *Restrictions on Investment and Repatriation.* Some countries (including Korea) impose various types and levels of restrictions and controls regarding investment and repatriation by foreigners, and many countries' governments expressly reserve the right to do so in exceptional circumstances, such as to prevent foreign control of or influence over industries considered "sensitive" (such as broadcasting, telecommunications, banking, or transportation), stabilize their internal balance of payments, mitigate excessive fluctuations in interest or exchange rates, or support domestic capital markets. Such restrictions and controls can, among other things, involve limits on the types of companies in which foreigners may invest and/or on the amount or types of securities that foreigners may hold. They could therefore limit or preclude certain types of investments and/or materially increase the Client's costs of investing. If a country were to impose a restriction on the remittance of foreign capital, there can be no assurance that the Client would be permitted to repatriate capital or profits, if any, with respect to certain investments. The Client could also be adversely affected by delays in, or a refusal to grant, any required governmental approval for repatriation of capital, as well as by the application to the Client of any restrictions on investments. Investing in entities either in, or which have a substantial portion of their operations in, certain countries could require the Client to adopt special procedures, seek local government approvals, or take other actions, each of which could subject the Client to additional costs.

## **Item 9: Disciplinary Information**

Neither Scion nor any of its officers, directors, or employees or other management persons, has been involved in any legal or disciplinary events that would require disclosure in response to this Item.

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

Scion and its employees do not have any relationships or arrangements with other financial services companies that are material to Scion's advisory business or that pose material conflicts of interest.

Darkwand, an affiliate, is the General Partner of the Onshore Fund, the Master Fund, and the Value Fund. While the General Partner is not separately registered as an investment adviser with the SEC, all of its investment advisory activities are subject to the Advisers Act and the rules thereunder. In addition, employees and persons acting on behalf of the General Partner, if any, are subject to the supervision and control of Scion.

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

### Code of Ethics

Scion has adopted a written Code of Ethics (the "Code") that is applicable to all employees. Among other things, the Code requires Scion and its employees to act in Clients' best interests, abide by all applicable regulations, avoid even the appearance of insider trading, and pre-clear and report on many types of personal securities transactions. Scion's restrictions on personal securities trading apply to employees, as well as employees' family members living in the same household. A copy of Scion's Code is available upon request by contacting Jonathan Jillson at 408-441-8400.

### Personal Trading

Employees may trade personally in the same securities Scion recommends for its Clients. Employees must pre-clear certain personal securities transactions, including IPOs and securities obtained through a private placement, before completing the transactions. Scion may deny any proposed transaction, particularly if the transaction poses a conflict of interest or if Scion is planning on transacting the same security at or about the same time for its Clients. Employees are also required to provide quarterly reports regarding transactions and holdings in "Reportable Securities" as defined in the Advisers Act. Employees must disclose all personal trading accounts initially upon commencement of employment and annually thereafter.

## **Item 12: Brokerage Practices**

### Selection of Brokers and Dealers

Scion has complete discretion in deciding which securities are bought and sold, the amount and price of those securities, the brokers or dealers to be used for a particular transaction, and commissions or markups and markdowns paid.

In selecting brokers to effect portfolio transactions for its Clients, Scion considers such factors as the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); the operational speed and efficiency with which transactions are effected, taking into account the size of order and difficulty of execution; the financial strength, integrity and stability of the broker; the firm's block trading and positioning capability; the quality, comprehensiveness and frequency of related services considered to be of value; the availability of securities to borrow for short sales; the market for the instrument in question; and the nature, quantity, and quality of research and other services and products the broker provides; and the competitiveness of commission rates in comparison with other brokers satisfying our selection criteria. Accordingly, if Scion determines in good faith that the amount of commissions charged by a broker is reasonable in relation to the value of the brokerage and products or services provided by such broker, Clients may pay commissions to such broker in an amount greater than the amount another broker might charge for effecting the same transaction.

### Soft Dollar Benefits

When a broker provides a Client or Scion with services beyond transaction execution or products, or pays for them, the Client or Scion is sometimes said to have acquired those services or products with "soft dollars" (or as "bundling" the costs of those services or products together with pure execution costs). To the extent this practice provides benefits to Scion or its affiliates, including relieving them of costs they would otherwise bear, it involves a conflict of interest. Section 28(e) of the Securities Exchange Act of 1934 (the "*Exchange Act*") provides a non-exclusive "safe harbor" under which, if certain conditions are met, using soft dollars will be deemed not to breach Scion's fiduciary duty to the Client. To be protected by Section 28(e), among other things, (i) the services and products consist of "research" and "brokerage" services and products and (ii) Scion must determine that commissions paid are reasonable in light of the value of the "brokerage" and "research" services and products acquired. Section 28(e) protects Scion's use of soft dollars for "research" and "brokerage" services and products even when doing so benefits clients other than the Fund. Using soft dollars to pay for services and products other than research and brokerage is not protected by the safe harbor, but does not necessarily constitute a violation of any law or fiduciary duty. Similarly, use of non-commission soft dollars or otherwise failing to satisfy procedural elements of the Section 28(e) safe harbor are not protected but are not necessarily prohibited.

Scion has no formal soft dollar arrangements in place, but may acquire services or products using soft dollars. In doing so, Scion has an incentive to cause the Client to pay higher compensation, use different Transacting Parties, and effect more transactions than it might otherwise do, all at the Client's expense. The Investment Management Agreements authorize Scion to use soft dollars for a wide range of services and products and do not limit soft dollar activities to those that are protected by the Section 28(e) safe harbor.

*Research and Brokerage.* Scion may acquire, among others, the following types of "research" from Transacting Parties: reports on or other information about particular companies or industries, including access to management of companies in which the Client is invested or considering investing and/or to other information sources; economic surveys and analyses; recommendations as to specific securities; financial and industry publications; portfolio evaluation services; financial

database software and services; computerized news, pricing and statistical services; analytical software and services; proxy analysis services and systems; quotation services; and other products or services that may enhance Scion's investment decision-making. "Brokerage" services and products beyond "actual" execution may include computer systems and facilities (including hardware) used for such things as communicating orders and settlement-related information electronically to executing Transacting Parties, post-trade matching of trade information, communicating allocation instructions, and other clearance and settlement functions.

Scion could also use transaction-related compensation (as well as interest prime brokers receive on cash balances, margin borrowings, and borrowings of securities to maintain short positions) to pay a prime broker for recordkeeping, custodial, and related services.

*Other Products and Services.* Non-research and/or non-brokerage services and products for which Scion could use soft dollars could include payments to brokers or other Transacting Parties to arrange for access to company management and other information sources under circumstances in which the arranging services are not considered "research" under SEC standards. In addition, it could also use soft dollars to pay for such things as costs of computer and communications equipment Scion uses in investment analysis and decision-making and costs of computer software and equipment used for Fund reporting and other administrative activities. None of these payments would be within the Section 28(e) safe harbor, and, if Scion were to use soft dollars for them, it would have all the incentives described above.

#### Investor Introductions

Scion may receive introductions to prospective Fund investors through broker-dealers that execute trades on behalf of Scion. Scion does not believe that it pays any additional fees or higher commissions as a result of these introductions. Scion seeks best execution on all transactions. However, Scion may have an incentive to select or use a broker-dealer based on receiving investor referrals from that counterparty.

#### Trade Aggregation

The Master Fund conducts substantially all of the investment and trading activities on behalf of the Onshore Fund and the Offshore Fund. The Value Fund is generally managed pari-passu to the Master Fund, subject to any limitations in each of the Client's governing documents. Trades on behalf of the Master Fund and Value Fund are aggregated and then allocated between these Clients pro-rata based on the relative capital of each these Clients. In the event of a partial fill, allocations will be made pro-rata based on the pre-allocation determination.

#### Trade Errors

Scion seeks to detect trade errors prior to settlement and to correct and/or mitigate them in an expeditious manner, as soon as practicable.

To the extent an error is caused by a third party, such as a broker, Scion will seek to recover any losses associated with the error from that third party. However, there is no guarantee that Scion will be able to do so.

Scion and its personnel will not be liable for trade errors, as long as those errors or mistakes did not constitute gross negligence or willful misconduct. That is, the Clients, and not Scion, will be financially responsible for any losses that arise out of trade errors that did not constitute gross negligence or a willful violation of law. To the extent that any gains arise from trading errors then such gains will be retained by the Client that benefited from such errors.

### **Item 13: Review of Accounts**

Client portfolios are reviewed on a continuous basis. Scion's investment personnel discuss investment ideas, investment strategies, economic developments, current events, and other issues related to current portfolio holdings and potential investment opportunities.

Scion provides each Fund investor with the following reports in accordance with the terms of the applicable Fund's offering memorandum and partnership agreement: (i) monthly account statements; (ii) annual audited financial reports; and (iii) annual tax information necessary to complete any applicable tax returns.

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

Scion does not compensate any referral or placement agents to attract investors or separate account clients. From time to time, brokers (including the Funds' prime brokers) may assist the Funds in raising additional funds from investors. Additionally, brokers may provide capital introduction and marketing assistance services, and representatives of Scion may speak at conferences and programs sponsored by the brokers, for investors interested in investing in private investment funds. Neither Scion nor the Funds compensate brokers for such assistance, events or services, or for any investments ultimately made by prospective investors attending such events.

### **Item 15: Custody**

Scion is deemed to have custody of the Funds' assets because of the authority that Scion and/or its affiliated entities have over those assets. The Funds' financial statements are subject to an annual audit, in accordance with auditing standards generally accepted in the United States, by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and the audited financial statements are distributed to each investor. The audited financial statements are prepared in accordance with generally accepted accounting principles and distributed within 120 days of the Funds' fiscal year end.

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

Scion generally has discretionary authority to determine, without obtaining specific consent from its Clients or Fund investors, the securities and the amounts to be bought or sold on behalf of its Clients. Any limitations on such authority are included in the respective Fund's Confidential Offering Memorandum and Partnership Agreement/ Articles of Association.

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

Scion is responsible for voting Client proxies. Scion has developed a written policy and procedures governing its activities in this area. In general, the policy requires Scion to vote proxies in the interest of maximizing Client assets. There may be times, however, when refraining from voting a

proxy is in its Clients' best interests, such as when Scion determines the cost of voting the proxy exceeds the expected benefit to its Clients. Scion maintains a record of all proxy votes cast on behalf of its Clients. A copy of Scion's proxy voting policies and procedures is available upon written request.

### **Item 18: Financial Information**

Scion has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.