

**Item 1 – Cover Page**

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This brochure provides information about the qualifications and business practices of Passport Capital, LLC (“Passport” or “Adviser” or the “firm”). If you have any questions about the contents of this brochure, please contact us at (415) 321-4600. 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.

Passport is a registered investment adviser. Registration of an investment adviser does not imply a certain level of skill or training. The oral and written communications of an adviser provide you with information that assists you in determining whether to hire or retain an adviser.

Additional information about Passport is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) and in the fund documents pertaining to any investment in a Passport-advised fund. Investors who enter into managed account relationships with Passport receive such information in the applicable investment management agreement and/or other documents governing the account.

This brochure does not constitute an offer to sell or the solicitation of an offer to purchase any securities or interests in any of the entities described in this brochure. Any such offer or solicitation will be made solely to qualified investors by means of a private placement memorandum and related subscription documents or by means of a managed account investment management agreement and related documentation.

## **Item 2 – Material Changes**

This brochure contains no material changes to the disclosures Passport provided in the last annual update of the brochure dated March 30, 2018.

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#### **Item 4 – Advisory Business**

Passport Capital, LLC is a global investment firm founded by John H. Burbank III.

Passport has been managing client assets since August 2000. Passport's advisory business is limited to serving as the investment manager or sub-adviser to privately offered pooled investment vehicles (individually, the, or a "Fund" and collectively, the "Funds"), managed accounts ("Managed Accounts") and non-discretionary accounts (non-discretionary accounts, Managed Accounts and Funds are collectively referred to herein as "Clients"). Each Fund for which Passport acts as the investment manager is accompanied by a private placement memorandum ("PPM") and governed by an operating agreement and investment management agreement ("IMA"), while each Managed Account is governed by an IMA.

John H. Burbank III is the sole managing member of Passport and controls 100% of the voting shares. Passport has ordinary members that have economic interests in Passport but do not have voting rights. Passport employs 19 full-time employees.

Passport serves as discretionary investment adviser to Funds and Managed Accounts (in regards to the latter, it may also from time to time act as a non-discretionary investment adviser). It also provides management services to entities not invested in securities ("Other Pools").

Passport seeks to create portfolios for its Clients that generate compounded returns on a risk-adjusted basis over a long-term horizon. Passport's areas of focus are the following: consumer, credit, digital currency and blockchain technology, emerging markets, financials and internet/technology. Passport's investment strategies are further described in Item 8 below.

The Funds fall within one of the offered strategies as described in more detail in Item 8. Investors choose between the Funds based on their interests and desire for exposure to different sectors, regions, investment types, and return and risk management objectives, among other factors. A particular Fund may have various share classes, which allow investors to choose between options for the length of the lock-up period and liquidity of underlying instruments and fee structures. Detailed descriptions of such share class options are outlined in each Fund's offering documents.

There are no material restrictions on the types of investments and/or strategies the Adviser may employ for the Funds. Descriptions of the Funds' mandates and investment objectives and investment strategies are communicated to investors in the Funds' offering documents.

Each Managed Account may be specifically tailored to the individual needs of the Managed Account holder such that certain securities or types of securities are restricted, though Passport generally has entered into relationships with investors whose investment objectives generally fall within one or more of the investment strategies that are the focus of Passport's investment team.

Certain Clients may have restrictions on investing in certain securities or types of securities, restrictions regarding specific securities or industries, gross or net exposure guidelines, or maximum position sizes, among other restrictions as individually negotiated with such Clients.

Passport does not participate in any wrap fee programs.

As of January 31, 2109, Passport managed approximately \$283.4 million of discretionary client assets.

## **Item 5 – Fees and Compensation**

Passport receives an annual management fee calculated as a percentage of assets under management ("Management Fee") from the Funds. The amount of the Management Fee may equal up to 2% per annum depending on the investor's choice of share class and lock-up period, or a one-time management fee of up to 5%. Management Fees are calculated using one of three methods and may be deducted from Client assets or invoiced for fees owed:

- calculated and payable quarterly as of the first day of each calendar quarter;
- calculated and payable monthly in advance of the month as of the first business day of the calendar month; or
- calculated and payable in advance as a one-time fee.

A detailed description of the Management Fee calculation is outlined in each Fund's PPM. Passport may waive or reduce the Management Fee in respect of any investor in its sole discretion.

Passport also receives Management Fees from Managed Accounts as individually negotiated and set forth in their respective IMAs.

The Funds and Managed Accounts each may also pay a performance-based fee to Passport or an affiliated entity such as Passport Ventures II, LLC as noted in Item 6 below.

The calculation and payment of the Management Fee for the Funds and Managed Accounts will be pro-rated for any period that is less than a full month or quarter, as applicable. Any

prepaid fees not subsequently earned through continuing management services would be refunded.

Passport's fees are exclusive of brokerage commissions, brokerage fees, transaction fees, and other related costs and expenses, which will be incurred by the Client. Please see also Item 12-Brokerage Practices below. Clients may incur certain charges imposed by custodians, brokers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, hardware and physical vaults for private storage keys, and other fees and taxes on brokerage accounts and securities transactions. Exchange-traded funds ("ETFs") and certain other instruments and vehicles which can be held by a Fund or Managed Account also charge internal management fees, which are disclosed in the applicable offering document. Such charges, fees, and commissions are exclusive of, and in addition to Passport's Management Fee, and Passport does not receive any portion of these commissions, fees, and costs.

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

Passport manages different types of Clients with a variety of fee arrangements and charges performance-based fees with respect of certain of its Clients, as noted in Item 5 above.

Passport and/or its affiliates may from time to time enter into performance-based fee arrangements with qualified Managed Account Clients. Such fees are subject to individual negotiations with each such Client. To qualify for a performance-based fee arrangement, the Managed Account Client must have at least \$1 million under Passport's management or a net worth of more than \$2 million. In measuring Clients' assets for the calculation of performance-based fees, Passport includes realized and unrealized capital gains and losses.

The Funds may pay a performance-based fee to Passport or an affiliated entity such as Passport Ventures II, LLC. The amount of performance-based fees paid or allocated to Passport or its affiliates is dependent on the investor's choice of Fund and share class and may equal up to 20% per annum of the profits (including realized and unrealized gains and losses) allocated to the vehicle's investors. Performance-based fees are either paid or allocated at the end of the calendar year or when an investor withdraws or redeems. The vehicle's general partner, board of directors or Passport, as applicable, may waive or reduce the performance-based fee in respect of any investor at its discretion.

Performance-based fee arrangements may potentially create an incentive for Passport to favor Clients paying such performance-based fees versus other Clients, who do not pay such fees or may pay lower management fees and/or performance-based fees, when allocating investment opportunities. Such arrangements may also potentially create an

incentive for Passport to recommend investments that may be riskier or more speculative than those that would be recommended under a different fee arrangement. Passport aims to design, implement and consistently apply procedures, including allocation procedures, to ensure that all Client accounts, over time, are treated equitably and fairly and that conflicts do not improperly influence the allocation of investment opportunities among Clients. However, there is no guarantee that a Client will participate in every investment opportunity identified by Passport. Passport periodically reviews the allocations among Client accounts in an attempt to determine that higher fee paying accounts are not systematically favored.

## **Item 7 – Types of Clients**

Passport's Clients include Funds and Managed Accounts (which may include non-discretionary accounts).

The Funds can be structured as master/feeder funds, meaning that investors contribute to a feeder fund which then, along with one or more additional feeder funds, contributes all or substantially all of its assets to a master fund. The collective assets of the master fund are then invested in a pool of securities and/or other instruments as determined by Passport as discretionary investment adviser. The feeder fund offerings generally include a U.S. limited partnership option (the "Onshore Feeder Funds") and a British Virgin Islands business company or Cayman Islands exempted company option (the "Offshore Feeder Funds").

The Onshore Feeder Funds are made available to investors who are "Accredited Investors" as defined under the U.S. Securities Act of 1933, as amended, and, dependent on choice of Fund, also qualify as either "Qualified Clients" under Rule 205-3 of the Investment Advisers Act of 1940, as amended (the "Advisers Act"), or "Qualified Purchasers" within the meaning of the Investment Company Act of 1940, as amended. The Offshore Feeder Funds are made available to investors who are qualified non-U.S. investors or are considered qualified U.S. tax-exempt investors and who are both Accredited Investors and either Qualified Clients or Qualified Purchasers, dependent on choice of Fund.

In other cases, the Fund is a standalone entity not incorporated into a larger master-feeder structure.

Investors in the Funds include individuals, trusts, investment companies, pension plans, fund-of-funds, corporations, endowments, family offices and other types of business entities.

The minimum investment requirement for the Funds is generally \$250,000. The minimum subscription requirement may be waived by Passport or its affiliate in its sole discretion.

The minimum investment for a Managed Account is specific to the particular account. Holders of Managed Accounts are generally institutions, corporations, pension plans, and other types of business entities.

Passport may from time to time enter into letter agreements or other similar agreements (collectively, "Side Letters") with one or more investors in the Funds which may 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, and liquidity terms) than such investors have pursuant to the general terms of the applicable Fund. Passport will not be 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 will Passport be 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**

Set forth below is a description of the firm's methods of analysis and investment strategies.

The Passport Special Opportunities strategy is a concentrated portfolio of a limited number of investments at any particular time. The strategy is primarily focused on global equities, or global equity instruments underlying certain derivative exposure, and employs a macroeconomic approach to identify investment themes and sectors that Passport believes are attractive for investment and then conducts bottom-up fundamental research, seeking to identify investment opportunities to express a theme or obtain exposure within particular sectors.

The Special Opportunities strategy also utilizes risk management analysis in portfolio construction in seeking to inform decisions regarding exposure to sectors and individual positions, the liquidity profile of the portfolio, hedging, and daily risk levels and tolerances. While the Special Opportunities strategy typically trades primarily in equity or equity-based securities and options, there are no limits on the type of securities the strategy may trade. Passport has broad and flexible investment authority in executing the strategy. The strategy may and does invest from time to time in a wide variety of derivatives, options, swaps, futures, cryptocurrencies, pooled vehicles, ETFs, convertible securities, and credit instruments. For example, the strategy may express its investment themes and ideas through securities such as credit default swaps or interest rate derivatives and may employ ongoing trading strategies with respect to such securities or other equity or credit instruments and derivatives. Passport may also trade currency futures and currency



forwards both to hedge currency risk and/or to express certain investment themes. The Special Opportunities strategy tends to have a longer-term investment duration, but may engage in a variety of other trades or hedges that are shorter in duration when the portfolio manager believes attractive opportunities for such trading exist.

Passport's Digital Network strategy (the "Digital Network Fund") intends to invest, on a global basis, primarily in or alongside (on a co-investment basis) pooled investment vehicles managed by Passport or third-party managers ("Underlying Funds"), but Passport may also cause the fund to make other investments. Strategies in which the fund may invest, either through or alongside Underlying Funds or otherwise, include but are not limited to the following digital asset investment strategies: hedged/arbitrage strategies; trading (including long/short, quantitative and other strategies); long only (active selection); systematic, event-driven; initial coin offerings ("ICOs") and mining/staking strategies. There is no limit to the amount that the Digital Network Fund may invest in a Passport-managed vehicle and at times such investment may constitute a material portion of the Digital Network Fund's portfolio. Through due diligence on managers of Underlying Funds, including evaluation of investment philosophy, expertise and security, Passport will seek to narrow the universe of strategies to those which it believes are attractive opportunities for capital allocation by the fund. Investing in the digital assets market is speculative, prices are volatile, and market movements are difficult to predict. Supply and demand for such investments change rapidly and are affected by a variety of factors, including regulation and general economic trends. In addition to these general investment risks, Passport may use investment techniques that subject the Fund to certain risks; some, but not all, of these risks are summarized below.

The Digital Network Fund may also make investments directly that may or may not be pursued in connection with managers of Underlying Funds, including direct investments in digital currencies, ICOs and simple agreements for future tokens ("SAFTs") (in each case, to the extent permissible given legal and regulatory constraints); entities engaged in digital currency "mining" activities; and entities involved with or utilizing blockchain technology. Moreover, the fund intends to engage in an overlay hedging strategy with respect to its investment portfolio. The fund may invest in certain strategies or asset classes, such as investments relating to "mining" of digital currencies, conduct hedging activities, or otherwise make or hold investments through subsidiary special-purpose vehicles in which other accounts managed by Passport or third parties may also hold interests. One of the Underlying Funds in which the fund intends to invest includes the Other Pools.

The Digital Network Fund expects to invest in Other Pools that engage in systematic trading strategies that aim to generate returns largely through programmatic and automated trade execution based on, but not limited to, signals derived from volume and price anomalies, crypto-native metrics, blockchain analytics, and other market observations. Such strategies will use trading signals in an attempt to capture inefficiencies and take short and long duration market exposure. Given the nature of the signals and strategy, generally such strategies will trade the most liquid digital assets (as measured by daily trading volume and market depth). Since the digital asset market is a 24 hour, 365 day a year market and many of the signals utilized may fire rapidly and have a short

duration, the strategy does require that a material portion of assets be kept on trading exchanges, both based in the U.S. and abroad, which have material risks as further detailed below including risk of loss and abrupt shutdowns and outages.

Each of the strategies described in this Item 8 can, from time to time, involve frequent trading which can lower investment performance, particularly due to increased brokerage and other transaction costs and taxes.

There can be no assurance that the strategies, Clients or the risk management system employed by Passport will meet their objectives. Investing in securities involves a substantial and/or total risk of loss that investors should be prepared to bear.

## **RISK OF LOSS**

Each prospective investor should, prior to investing, thoroughly review the risk factors described in the offering document or IMA, as applicable, of the relevant Client, which provides an extensive, but non-exhaustive, list of applicable risk factors. A number of the material risks related to the various investment strategies and different types of securities or other investments used by the firm are also described further below in this Item 8. Not all possible risks are described below.

Investments in the Funds or Managed Accounts involve a high degree of risk. A Fund's or Managed Account's portfolio may be subject to wide swings in value. Investing in securities involves a risk of loss that clients should be prepared to bear. Passport, as the Adviser, will follow an investment policy that, if unsuccessful, could involve substantial or total losses. Although Passport generally has the flexibility to react to changing market conditions, adverse changes in a company or issuer's situation could involve substantial losses. Passport makes no guarantee, either oral or written, that a Fund's or Managed Account's investment objective will be achieved. Under the applicable IMA, Passport, as the Adviser, is generally not liable for any error in judgment and/or for any investment losses a Fund or Managed Account may experience, in the absence of bad faith, fraud, gross negligence, willful misconduct or a willful violation of applicable law.

Investors should consider the Funds and Managed Accounts as a supplement to an overall investment program and should only invest if they are willing to undertake the risks involved. An investment in a Fund or Managed Account involves significant risks that may not be associated with other investment vehicles. In addition, investors who are subject to income tax should be aware that an investment in a Fund or Managed Account may create taxable income or tax liabilities in excess of cash distributions to pay such liabilities.

## **MATERIAL RISKS**

Prospective investors should carefully consider, among other factors, the risks described below which relate to the various investment strategies and investments made by the firm. The risks involved for each Fund and Managed Account will vary based on the respective investment strategy and the type of securities or other investments held in the portfolio. These risk factors are not meant to be an exhaustive listing of all potential risks associated with an investment in a Fund or Managed Account.

**Reliance on the Adviser.** The Funds and Managed Accounts have limited operating histories. There can be no assurance that the Funds or Managed Accounts will achieve their investment and risk management objectives. The past investment performance of the Adviser and its respective employees and affiliates who are responsible for managing the portfolio of the Funds and Managed Accounts may not be indicative of the future results of an investment in any Fund or Managed Account. The success of a Fund's or Managed Account's investment strategy will depend on the management, skill and acumen of the Adviser. There can be no assurance that the members of the investment management team will remain employed by the Adviser.

**No Input in Fund or Managed Account Affairs.** Investors in the Funds will have no right to take part in the conduct, management, operation or control of a Fund or any Fund's business. Investors will have extremely limited voting rights. There exists broad discretion to expand, revise, or contract the Fund's business without the consent of the investors. Any decision to engage in a new activity could result in the exposure of the Fund's capital to additional risks which may be substantial. Additionally, investors generally have no right to obtain information about a Fund's current investments or strategies. If the Adviser, in its sole discretion, grants an investor access to such information, such access may be subject to strict confidentiality provisions.

Investors in a Managed Account will generally have no right to take part in the conduct or management of a Managed Account.

**Investment and Trading Risks In General.** All investments risk the loss of capital. Passport believes that the Funds' and Managed Accounts' investment programs and research techniques attempt to moderate this risk to a certain degree through a selection of securities and other financial instruments and risk management techniques. No guarantee or representation, however, is made that any Fund's or Managed Account's program will be successful, and investment results may vary substantially over time. A Fund's or Managed Account's investment program may utilize such investment techniques as options, limited diversification, margin transactions and short sales, which practices can, in certain circumstances, magnify the adverse impact to which the Fund or Managed Account may be subject.

**Concentration of Investments; Investment Discretion.** The Funds are generally not limited with respect to the concentration of their investments in particular securities, industries, or sectors. The Funds may hold a relatively small number of positions, each representing a relatively large portion of the Fund's capital. The portfolios of Managed Accounts may also contain concentrated positions subject to compliance with the terms of their respective IMA. Losses incurred in positions making up a significant percentage of a Fund's or Managed Account's capital could have a material adverse effect on such Fund's or Managed Account's overall financial condition.

In addition, the Adviser has wide latitude, subject to any particular restriction or guidelines contained in the applicable PPM or IMA to invest or trade a Fund's and Managed Account's assets, to pursue any particular strategy or tactic or to change a Fund's or Managed Account's emphasis, objectives, policies and/or strategy, all without obtaining the approval of the Investors. Subject to compliance with any specific guidelines in the applicable PPMs or IMAs, a Fund or Managed Account may at any time include long or short positions in publicly traded or privately issued or negotiated common stocks, privately placed securities, preferred stocks, stock warrants and rights, sovereign debt, corporate debt, bonds, notes or other debentures or debt participations, convertible securities, swaps, options(purchased or written), futures contracts, commodities and other derivative instruments, partnership interests and other securities or financial instruments including those of investment companies and other investment vehicles managed by other investment managers, Passport or an affiliate of Passport.

**Risks Associated with Investing in Foreign Markets.** The Funds and Managed Accounts will invest in foreign or domestic securities denominated in foreign currencies and/or traded outside of the United States. Such investments require consideration of certain risks typically not associated with investing in U.S. securities or property. Such risks include, among other things, trade balances and imbalances and related economic policies, unfavorable currency exchange rate fluctuations, impositions of exchange control regulation by the United States and foreign governments, U.S. and foreign withholding taxes, limitations on the removal of funds or other assets, policies of governments with respect to possible nationalization of their industries and political difficulties, including expropriation of assets, confiscatory taxation, and economic or political instability in foreign nations.

There may be less publicly available information about certain foreign companies than would be the case for comparable companies in the United States, and certain foreign companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those applicable to U.S. companies. Securities markets outside the United States, while growing in volume, have, for the most

part, substantially less volume than U.S. markets and many securities traded on these foreign markets are less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, settlement of trades in some non-U.S. markets is generally much slower and subject to a greater risk of failure than in U.S. markets. There also may be less extensive or more arbitrary regulation of the securities markets in particular countries than in the United States. Additional costs could be incurred in connection with international investment activities. Foreign brokerage commissions generally are higher than in the United States. Expenses may also be incurred on currency exchanges when a Fund or Managed Account changes investments from one country to another. Increased custodian costs as well as administrative difficulties (such as the applicability of foreign laws to foreign custodians in various circumstances, including bankruptcy, ability to recover lost assets, expropriation, nationalization, and record access) may be associated with the maintenance of assets in foreign jurisdictions. There is also potential difficulty in pursuing legal remedies.

**Risks of Emerging Markets.** The Funds and Managed Accounts may invest in global markets that are considered to be emerging markets. Such markets are generally less mature and developed than those in advanced countries. There are significant risks involved in investing in emerging markets, including liquidity risks, sometimes aggravated by rapid and large outflows of “hot money” and capital flight, currency risks, and political risks, including potential exchange control regulations and potential restriction on foreign investment and repatriation of capital. In many cases, such risks are significantly higher than those in developed markets.

Emerging market countries have varying laws and regulations and, in some countries, foreign investment is controlled or restricted to varying degrees. In some countries where prior government approval is required for foreign investments, there are regulations that may limit the amount of the foreign investment in a particular type of investment, company or sector of the economy, or there are certain restrictions on foreign capital remittances abroad. There are also different fiscal policies: (i) in some countries the same treatment is given to nationals as to foreigners; (ii) in some countries capital gains are not taxable; and (iii) in some countries interest income from some securities may not be taxable or may be taxable at lower rates.

**Highly Volatile Markets.** The prices of financial instruments in which the Funds and Managed Accounts may invest can be highly volatile. Price movements of forward and other derivative contracts in which the Funds’ and Managed Accounts’ assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies.

The Funds and Managed Accounts are also subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouse.

**Specialized, Speculative Investment Program.** The specialized investment programs of the Funds and Managed Accounts involve investing in all types of securities and instruments, including, but not limited to, a wide variety of debt securities, equities and special situations, common and preferred stocks, options, futures, forwards, warrants, bonds, notes, bills, rights, commodities, participatory notes, currencies and cryptocurrencies, pooled investment vehicles and derivatives. Many of the Funds' and Managed Accounts' investments may have limited liquidity. The Funds and Managed Accounts are designed to serve as part of an overall investment program for sophisticated investors willing and able to assume the capital risks inherent in non-investment grade securities. Generally, the governing documents for the Funds impose no limits on the types of securities or other instruments in which the Funds may take positions, the type of positions it may take or the concentration of the Fund's investments.

**Availability and Accuracy of Information.** Passport, as Adviser, will select investments for the Funds and Managed Accounts on the basis of information and data derived from research by Passport and, for public companies, filed by the issuers of such securities with the SEC or foreign exchanges or regulators. Although Passport intends to evaluate such information and data and to seek independent corroboration when Passport considers it appropriate and when it is reasonably available, Passport will not in many cases be in a position to confirm the completeness, genuineness, or accuracy of such information and data.

**Availability of, and Ability to, Acquire Suitable Investments.** While Passport believes that many attractive investments of the type in which the Funds and Managed Accounts may invest are currently available and can be identified, there can be no assurance that such investments will continue to be available or that available investments will meet the Funds' or Managed Account's investment criteria. In addition, the Funds and Managed Accounts may be unable to find a sufficient number of attractive investment opportunities to meet their investment objective.

**High Portfolio Turnover and Recognition of Gain.** The Fund's or Managed Account's respective investment strategy may result in a short holding period before investments are rolled over into new investments or sold. This will cause the recognition of any investment gains on a more frequent basis than other investment strategies. Many of those gains will not likely qualify for the holding period needed for capital gains tax treatment. Therefore, U.S. taxable investors may have a greater need to pay regular taxes (out of their own resources or by requesting withdrawals) than compared to other investment strategies that hold investments longer.

**Equity Securities.** The Funds and Managed Accounts invest in equity securities, among other types of securities. The purchaser of an equity security typically receives an ownership interest in the company as well as certain voting rights. The owner of an equity security may participate in a company's success through the receipt of dividends, which are distributions of earnings by the company to its owners. Equity security owners may also participate in a company's success or lack of success through increases or decreases in the value of the company's shares as traded in the market for such shares. Equity securities generally take the form of common stock or preferred stock. Preferred stockholders typically receive greater dividends but may receive less appreciation than common stockholders and may have lesser or greater voting rights as well. Equity securities may also include convertible securities, warrants, or rights. Convertible securities typically are debt securities or preferred stocks, which are convertible into common stock after certain time periods or under certain circumstances. Warrants or rights give the holder the right to purchase a common stock at a given time for a specified price.

**Small Company Risk.** The Funds and Managed Accounts may invest in the securities of small or medium-sized companies that may be more susceptible to market downturns and have prices that are more volatile than those of larger companies. Smaller companies generally have narrower markets and more limited managerial and financial resources than larger established companies.

**Risks Associated with Private Company Investments.** Some of the Funds and Managed Accounts may from time to time invest in private company investments. Such investments involve an extraordinarily high degree of business and financial risk, can result in substantial or complete losses and may be investments of a longer investment duration. Some portfolio companies in which the Funds or Managed Accounts may invest may be operating at a loss or with substantial variations in operating results from period to period and may need substantial additional capital to support expansion or to achieve or maintain competitive positions. Such companies may face intense competition, including competition from companies with much greater financial resources, much more extensive development, production, marketing and service capabilities and a much larger number of qualified managerial and technical personnel. Such companies may also provide less information than might otherwise be available from a publicly held company, and the management of such portfolio company might also be less experienced than that which might be found at a publicly held company. In addition, risks may be increased with holding a private company due to the more illiquid nature of the asset and need to hold the investment for a longer period of time. Passport can offer no assurance that the marketing efforts of any particular portfolio company will be successful or that its business will succeed. Furthermore, Passport, as Adviser, will have the right at any time in its sole and absolute discretion and without notice to any investor, to modify, amend, renegotiate,

extend, change or waive the terms of any private company investments the Funds or Managed Accounts make.

**Preferred Stock.** The Funds or Managed Accounts may invest in preferred stock which may have characteristics of both debt and equity securities. Dividend payments to preferred stockholders may be suspended or cancelled if the issuer experiences liquidity difficulties, and the principal paid for preferred stock is generally subordinate to the debt obligations of the issuer. Consequently, investments in preferred stock carry a significant risk of loss of principal.

**Options.** The Funds and Managed Accounts may invest in, or write, options. The purchaser of a put or call option runs the risk of losing the entire investment in a relatively short period of time. The writer of an uncovered call option is subject to a risk of loss should the price of the underlying security increase, and the writer of an uncovered put option is subject to a risk of loss should the price of the underlying security decrease.

**Swaps and Derivatives.** The Funds and Managed Accounts will enter into swaps with financial intermediaries from time to time as part of its investment activities. A swap is an agreement between two parties whereby cash payments periodically are exchanged based upon changes in the price of an underlying asset (such as an equity security, an index of securities or another asset or group of assets with a readily determinable value). For example, an interest rate swap involves one party agreeing to make periodic payments to the first party that vary with the prime rate or another variable interest rate indicator. Swaps and other derivatives are subject to the risk of non-performance by the swap counterparty, including risks relating to the financial soundness and creditworthiness of the swap counterparty. Swaps and other forms of derivative instruments are not guaranteed by an exchange or clearing house or regulated by any U.S. or foreign government authority. It may not be possible to dispose of or close out a swap or other derivative position without the consent of the counterparty, and the Funds or Managed Accounts may not be able to enter into an offsetting contract in order to be able to cover its risk. In addition, in valuing derivative instruments it is anticipated that the Funds or Managed Accounts will typically rely on quotes or other information provided by such counterparties.

**Currencies.** The Funds and Managed Accounts may invest a portion or most of their assets in equity and debt securities denominated in currencies other than the U.S. dollar as well as in other financial instruments, the price of which is determined with reference to currencies other than the U.S. dollar. However, the Funds and Managed Accounts value their securities and other assets in U.S. dollars. To the extent unhedged, the value of a Fund's or Managed Account's assets will fluctuate with the exchange rate between the U.S. dollar and other currencies, as well as with price changes of the respective Fund's or



Managed Account's investments in the various local markets and currencies. Thus, an increase in the value of the U.S. dollar compared to other currencies in which a Fund or Managed Account makes its investments will reduce the effect of increases and magnify the effect of decreases in the prices of such Fund's or Managed Account's securities in their local markets. Conversely, a decrease in the value of the U.S. dollar will have the opposite effect of magnifying the effects of increases and reducing the effects of decreases in the prices of the Fund's or Managed Account's non-U.S. dollar securities.

**Forward Currency Contracts.** The Funds and Managed Accounts will, primarily for the purposes of hedging against currency fluctuations to which such Fund or Managed Account may be subject, invest in forward currency contracts from time to time, but there can be no assurance that such hedging transactions will be effective. A Fund or Managed Account may also use currency contracts as part of trading strategies intended to take advantage of price differentials between currencies or fluctuations in currency prices. Forward currency contracts may not be liquid in all circumstances so that, in volatile markets, to the extent a Fund or Managed Account wishes to do so, it may not be able to close out a position by taking another position equal and opposite to such position on a timely basis or without incurring a sizable loss. Closing transactions with respect to forward currency contracts usually are effected with the currency trader who is a party to the original forward contract and generally require the consent of such trader. There can be no assurance that a Fund or Managed Account will be able to close out its forward currency contracts. There are no limitations on daily price moves in forward contracts. Banks and futures commissions merchants with whom a Fund or Managed Account may maintain accounts may require such Fund or Managed Account to deposit margin with respect to such trading. Banks are not required to continue to make markets in forward contracts. There have been periods during which certain banks have refused to quote prices for such forward contracts or have quoted prices with an unusually wide spread between the price at which the bank is prepared to buy and that at which it is prepared to sell. Trading of forward contracts through banks is not regulated by any U.S. government agency. Funds or Managed Accounts investing in foreign currency contracts will be subject to the risk of bank failure and the inability of, or refusal by, a bank to perform with respect to such contracts.

**Interest Rates.** The value of some or all of the Funds' or Managed Accounts' investments may change in response to movements in interest rates. The market value of debt securities that are interest rate-sensitive is inversely related to changes in interest rates. That is, an interest rate decline produces an increase in a security's market value and an interest rate increase produces a decrease in value. The longer the remaining maturity of a security, the greater is the effect of interest rate changes. Changes in the ability of an issuer to make payments of interest and principal and in the market's perception of its creditworthiness also affect the market value of that issuer's debt securities.

In addition, a decline in interest rates could reduce the amount of current income a Fund or Managed Account is able to achieve from interest on certain debt, including floating rate debt. To the extent that the cash flow from a fixed income security is known in advance, the present value (i.e., discounted value) of that cash flow decreases as interest rates increase; to the extent that the cash flow is contingent, the dollar value of the payment may be linked to then-prevailing interest rates. Moreover, the value of many fixed income securities depends on the shape of the yield curve, not just on a single interest rate. Thus, for example, a callable cash flow, the coupons of which depend on a short rate such as three-month LIBOR, may shorten (i.e., be called away) if the long rate decreases. In this way, such securities are exposed to the difference between long rates and short rates. A Fund or Managed Account may also invest in floating rate securities. The value of these investments is closely tied to the absolute levels of such rates, or the market's perception of anticipated changes in those rates. This introduces additional risk factors related to the movements in specific interest rates that may be difficult or impossible to hedge and that also interact in a complex fashion with prepayment risks.

**Short Sales.** The Funds and Managed Accounts will engage in "short sale" transactions from time to time and may have a substantial number of short positions when a portfolio managers' market view or security-specific views indicate such positioning may be appropriate. A short sale involves the sale of a security that the Fund or Managed Account does not own in the hope of purchasing the same security (or a security exchangeable therefore) at a later date at a lower price. Short selling allows an investor to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. However, since the borrowed securities must be replaced by purchases at market prices in order to close out the short position, any appreciation in the price of the borrowed securities can result in a loss. Short sales of securities and financial instruments can, in certain circumstances, substantially increase the impact of adverse price movements on a Fund's or Managed Account's investments. A short sale involves the risk of a theoretically unlimited increase in the market price of the particular investment sold short, which could result in the inability of the respective Fund or Managed Account to cover the short position, and of theoretically unlimited potential for loss to such Fund or Managed Account. There can be no assurance that securities necessary to cover a short position would be available for purchase by a Fund or Managed Account.

**Fixed Income Securities.** The Funds or Managed Accounts may invest a portion of their capital in bonds or other fixed income securities, including, without limitation, bonds, notes and debentures issued by corporations; debt securities issued or guaranteed by the U.S. Government or one of its agencies or instrumentalities; foreign sovereign debt, commercial paper; and "higher yielding" (and, therefore, higher risk) debt securities of the former

categories. These securities may pay fixed, variable or floating rates of interest, and may include zero coupon obligations. Fixed income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (i.e., credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (i.e., market risk). It is likely that a major economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

**Leverage.** The Funds and Managed Accounts may borrow from banks and other financial institutions in order to enhance their investment leverage. The Funds and Managed Accounts may also engage in other investment strategies (such as options and derivatives) that may result in leveraging the assets of the Fund or Managed Account. Loans may be secured by assets of the Fund or Managed Account pledged to lenders. Leveraging by means of borrowing may exaggerate the effect of any increase or decrease in the value of the assets of the Fund or Managed Account and money borrowed will be subject to interest and other costs (which may include commitment fees and/or the cost of maintaining minimum average balances), which may or may not exceed the income received from the instruments purchased with borrowed funds. The use of margin accounts by the Funds or Managed Accounts in connection with their portfolio transactions is also a form of leverage. Similarly, certain investment strategies involving the use of derivatives may have the effect of creating a leveraged transaction. Any such leverage may offer the potential for higher returns, but will also increase the risk of an investment in a Fund or Managed Account.

**Hedging Transactions.** The Funds and Managed Accounts may utilize financial instruments such as forward contracts, options, futures, ETFs, and swaps for hedging purposes or as part of its trading strategies. Hedging techniques involve one or more of the following risks: (i) imperfect correlation between the performance and value of the instrument and the value of the Client securities or other objective of the Adviser; (ii) possible lack of a secondary market for closing out a position in such instrument; (iii) losses resulting from interest rate, spread or other market movements not anticipated by the Adviser; (iv) the possible obligation to meet additional margin or other payment requirements, all of which could worsen the Client's position; and (v) default or refusal to perform on the part of the counterparty with which the Client trades. Furthermore, to the extent that any hedging strategy involves the use of over-the-counter derivatives transactions, such a strategy would be affected by implementation of the various regulations adopted pursuant to Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). Hedging may mitigate losses, but does not eliminate the risk of loss

and may limit opportunities for gain. The success of the Funds' and Managed Accounts' hedging transactions is subject to the movements of securities prices and currency and interest rates. The degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio position may vary. The Adviser may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent the Fund or Managed Account from achieving the intended hedge or expose the Fund or Managed Account to risk of loss.

**Futures Contracts and Options on Futures Contracts.** The Funds and Managed Accounts may enter into futures contracts that relate to securities in which it may directly invest and indices comprised of such securities, and may purchase and write call and put options on such contracts. The Funds and Managed Accounts may also purchase futures and options if cheaper than the underlying stocks or bonds.

A financial futures contract is a contract to buy or sell a specified quantity of financial instruments such as U.S. Treasury bills, notes and bonds, commercial paper and bank certificates of deposit or the cash value of a financial instrument index at a specified future date at a price agreed upon when the contract is made. Under such contracts no delivery of the actual securities making up the index takes place. Rather, upon expiration of the contract, settlement is made by exchanging cash in an amount equal to the difference between the contract price and the closing price of the index at expiration, net of variation margin previously paid.

A stock index futures contract is a contract to buy or sell specified units of a stock index at a specified future date at a price agreed upon when the contract is made. The value of a unit is based on the current value of the contract index. Under such contracts no delivery of the actual stocks making up the index takes place. Rather, upon expiration of the contract, settlement is made by exchanging cash in an amount equal to the difference between the contract price and the closing price of the index at expiration, net of variation margin previously paid.

Substantially all futures contracts are closed out before settlement date or called for cash settlement. A futures contract is closed out by buying or selling an identical offsetting futures contract. Upon entering into a futures contract, the Fund or Managed Account is required to deposit an initial margin with the custodian for the benefit of the futures broker. The initial margin serves as a "good faith" deposit that the Fund or Managed Account will honor its futures commitments. Subsequent payments (called "variation margin") to and from the broker are made on a daily basis as the price of the underlying investment fluctuates.

The Fund or Managed Account transactions in options, futures, options on futures and equity swaps, if any, involve additional risk of loss. Loss can result from a lack of correlation between changes in the value of derivative instruments and the portfolio assets being hedged(if any), the potential liquidity of the markets for derivative instruments, or the risks arising from margin requirements and related leverage factors associated with such transactions. The use of these management techniques also involves the risk of loss if the Adviser is incorrect in its expectation of fluctuations in securities prices, interest rates or currency prices.

The Funds and Managed Accounts may also buy and sell put and call options on futures contracts. These options give the Fund or Managed Account the right (but not the obligation), for a specified price, to sell or purchase, as the case may be, the underlying futures contracts at any time during the option period. The Fund or Managed Account may terminate its position in an option contract by selling or purchasing, as the case may be, an offsetting option in the same series. There is no guarantee that such a closing transaction can be effected. The Fund or Managed Account's ability to establish and close out positions on such options is dependent upon a liquid market. Loss from investing in options on futures is potentially unlimited.

Unlike trading on U.S. commodity exchanges, trading on non-U.S. commodity exchanges is not regulated by the United States Commodity Futures Trading Commission (the "CFTC") and may be subject to greater risks than trading on U.S. exchanges. For example, some non-U.S. exchanges are "principals" markets in which no common clearing facility exists and a trader may look only to the broker for performance of the contract. In addition, unless the Fund or Managed Account hedges against fluctuations in the exchange rate between the U.S. Dollar (in which interests in the Funds and Managed Accounts are denominated) and other currencies in which trading is done on non-U.S. exchanges, any profits that the Fund or Managed Account might realize in trading could be reduced or eliminated by adverse changes in the exchange rate, or the Funds and Managed Accounts could incur losses as a result of those changes.

1. *Speculative and volatile.* Futures contracts prices are highly volatile. Such volatility may lead to substantial risks and returns, generally much larger than in the case of equity or fixed-income investments. Price movements of futures contracts are influenced by, among other things, changing supply and demand relationships; government trade, fiscal, monetary and exchange programs and policies; national and international political and economic events; and changes in interest rates. In addition, governments from time to time intervene, directly and by regulation in certain markets, particularly in currencies and gold. Such intervention is often intended to influence price directly. None of these factors can be controlled by the Adviser and no assurances can be given that advice will result

in profitable trades for the Funds and Managed Accounts or that the Funds and Managed Accounts will not incur substantial losses.

2. *Highly leveraged.* The Funds and Managed Accounts may trade futures on a leveraged basis due to the low margin deposits required for trading. The low margin deposits normally required in futures trading permit an extremely high degree of leverage; margin requirements for futures trading being in some cases as little as 2% of the face value of the contracts traded. For example, if at the time of sale 10% of the price of the futures contract is deposited as margin, a 10% decrease in the price of the futures contract would, if the contract was then closed out, result in a total loss of the margin deposit before any deduction for the trading commission. A decrease of more than 10% would result in a loss of more than the total margin deposit. Accordingly, a relatively small price movement in a futures contract may result in immediate and substantial loss to the Funds and Managed Accounts. Like other leveraged investments, any trade may result in losses in excess of the amount invested.

3. *Illiquidity.* Futures trading at times may be illiquid. Certain U.S. commodity exchanges impose “daily limits” on the amount by which the price of most futures contracts traded on such exchanges may vary during a single day. Daily limits prevent trades from being executed during a given trading day at a price above or below the daily limit. Once the price of a futures contract has moved to the limit price, it may be difficult, costly or impossible to liquidate a position. Such limits could prevent the Adviser from promptly liquidating unfavorable positions and restrict its ability to exercise or offset commodity options held in the Funds’ and Managed Accounts’ portfolios, subjecting the Funds and Managed Accounts to substantial losses. In addition, even if futures prices have not moved the daily limit, the Adviser may be unable to execute trades at favorable prices if the liquidity the market is not adequate. Daily limits have been applicable to bond futures for some time and have recently been imposed on stock index futures. It is also possible for an exchange or the CFTC to suspend trading in a particular contract, order immediate settlement of a particular contract or order that trading in a particular contract be conducted for liquidation only.

4. *Position limits.* The CFTC and the U.S. commodities exchanges have established limits referred to as “speculative position limits” on the number of futures positions and the maximum net long or net short speculative positions that any person may hold or control in any particular futures or options contracts traded on U.S. commodities exchanges. All accounts (proprietary or client) owned or managed by the Adviser will be combined for position limit purposes. In addition, for purposes of complying with speculative position limits, the Funds’ and Managed Accounts’ outright futures positions will be required to be aggregated with any futures positions owned or controlled by the Adviser or any principal of the Adviser. The Adviser may be unable to take positions in particular futures or could be required to liquidate positions held for the Funds and Managed Accounts in order to comply with such limits. Any such liquidation could result in substantial costs to the Funds and Managed Accounts.

**Commodity Options.** The Funds and Managed Accounts may purchase or sell commodity options. An option on a futures contract or on a commodity gives the buyer of the option the right, but not the obligation, to take a position at the exercise price in the underlying futures contract or commodity. The buyer of a call option acquires the right to a long position in the underlying futures contract or commodity, and the buyer of a put option acquires the right to take a short position in the underlying futures contract or commodity.

The cost of acquiring a commodity option is its premium. The writer (or seller) of an option on futures is obligated to take a futures position at a specified price opposite to the option buyer if the option is exercised. Thus, the writer of a call option must stand ready to take a short position in the underlying futures contract at the strike price if the buyer should exercise the option. The writer of a put option, on the other hand, must stand ready to take a long position in the underlying futures contract at the strike price.

**Writing Options Creates Additional Risks.** The writer of a call option who does not have a long position in the underlying futures contract or physical commodity is subject to risk of loss should the price of the futures contract or commodity be higher than the strike price prior to expiration of the option by an amount greater than the premium received for writing the option. The writer of a call option who has a long position in the underlying futures contract or physical commodity is subject to the full risk of a decline in price of the futures contract or commodity reduced by the premium received for granting the option. In exchange for the premium received for writing a call option, the option writer gives up all of the potential gain resulting from an increase in the price of the underlying futures contract or commodity above the strike price prior to expiration of the option.

The writer of a put option who does not have a short position in the underlying futures contract or physical commodity (e.g., commitment to sell the physical) is subject to risk of loss should the price of the futures contract or commodity decrease below the strike price prior to expiration of the option by an amount in excess of the premium received for writing the option. The writer of a put option on a futures contract who has a short position in the underlying futures contract is subject to the full risk of a rise in the price in the futures contract reduced by the premium received for writing the option. In exchange for the premium received for writing a put option on a futures contract, the option writer gives up all of the potential gain resulting from a decrease in the price of the futures contract below the strike price prior to expiration of the option. The writer of a put option on a physical commodity is subject to the full risk of a decline in the price of the physical commodity which must be obtained to fulfill the commitment reduced by the premium received for writing the option. In exchange for the premium, the writer of a put option on a physical commodity gives up all the potential gain which would have resulted from a

decrease in the price of the commodity below the strike price prior to expiration of the option.

The use of stock index futures contracts as a hedging device involves several risks. No assurance can be given that a correlation will exist between price movements in the stock index and price movements in the securities that are the subject of a hedge. Furthermore, positions in futures contracts may be closed out only on the exchange on which they were entered into or through a linked exchange, and no secondary market exists for those contracts. In addition, although the Funds and Managed Accounts expect to enter into futures contracts only if an active market exists for such contracts, no assurance can be given that an active market will exist for such contracts at any particular time. Certain exchanges do not permit trading in particular contracts at prices that represent a fluctuation in price during a single day's trading beyond a certain set limit. If prices fluctuate during a single day's trading beyond those limits, a Fund or Managed Account could be prevented from promptly liquidating unfavorable positions and thus be subject to losses.

**Derivatives.** The Funds and Managed Accounts may also invest in derivatives, which generally include complex derivative instruments that seek to modify or replace the investment performance of particular securities, commodities, currencies, interest rates, indices or markets on a leveraged or unleveraged basis. These instruments generally have counterparty risk and may not perform in the manner expected by the counterparties, thereby resulting in greater loss or gain to the Funds and Managed Accounts. These investments are all subject to additional risks that can result in a loss of all or part of an investment—in particular, interest rate and credit risk volatility, world and local market price and demand, and general economic factors and activity. Derivatives may have very high leverage embedded in them that can substantially magnify market movements and result in losses greater than the amount of the investment. Some of the markets in which the Funds and Managed Accounts effect derivative transactions are over-the-counter or interdealer markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of exchange-based markets. This exposes the Funds and Managed Accounts to the risks that a counterparty will not settle a transaction because of a credit or liquidity problem or because of disputes over the terms of the contract. Although the Funds and Managed Accounts will attempt to limit their derivative transactions to well-known and well-capitalized firms, the Funds and Managed Accounts are not restricted from dealing with any particular counterparty or from concentrating all of its transactions with one counterparty.

**Derivatives are Difficult to Value.** Derivative instruments may be difficult to value accurately. Any mis-valuation could adversely affect the Funds and Managed Accounts and their investors.



**Participatory Notes.** Participatory notes (“P-Notes”) are instruments typically utilized by investors to obtain exposure to an equity investment, including common stocks and warrants, in a local market where direct investment in such company’s equity is not allowed by local law or regulation. In countries such as Saudi Arabia, an investor may gain exposure to the market through a P-Note, which derives its value from a group of underlying equity securities. A P-Note is intended (disregarding the effect of any fees and expenses) to reflect the performance of the underlying equity securities on a one-to-one basis so that investors will not normally (i) gain more in absolute terms than they would have made had they invested in the underlying securities directly or (ii) lose more than they would have lost had they invested in the underlying securities directly.

P-Notes also provide a less expensive option to direct investment by reducing registration and transaction costs in acquiring and selling local registered shares. The Adviser believes that P-Notes can offer greater liquidity in markets that restrict the ability of the Fund to dispose of an investment by either restricting transactions by size or requiring registration and/or regulatory approvals.

P-Notes are generally structured and sold by a local branch of a bank or broker-dealer that is permitted to purchase equity securities in the local market. Pursuant to the terms of the instrument, the Funds and Managed Accounts may tender a P-Note for cash payment in an amount that reflects the current market value of the underlying investments, less program expenses, such as trading costs, taxes and duties.

P-Notes represent unsecured, unsubordinated contractual rights of the issuer and do not confer any right, title or interest in respect to the underlying equity securities or provide rights against the issuer of the underlying securities. For this reason, in addition to the risks normally associated with a direct investment in the underlying securities, P-Notes are subject to counterparty risk if the issuer of the P-Note is unable or refuses to perform under the terms of the P-Note. While the holder of a P-Note is entitled to receive from the bank or broker-dealer any dividends or other distributions paid on the underlying securities, the holder is not entitled to the same rights as an owner of the underlying securities, such as voting rights. P-Notes are also not traded on exchanges, are privately issued, and may be illiquid. There can be no assurance that the trading price or value of P-Notes will equal the value of the underlying value of the equity securities they seek to replicate.

**Saudi Arabia’s Economy.** Saudi Arabia’s economy has been, and may continue to be, adversely affected by the current low oil price environment. The oil sector is a significant contributor to Saudi Arabia’s economy and oil revenues account for a majority of the country’s total revenues and export earnings. As oil is Saudi Arabia’s most important export, any change in oil prices affects various macroeconomic and other indicators,

including, but not limited to, gross domestic product (“GDP”), government revenues, balance of payments and foreign trade. International oil prices have fluctuated significantly over the past two decades, and may remain volatile in the future. More recently, international oil prices have witnessed a significant decline since mid-2014, with the OPEC Reference Basket price (a weighted average of prices per barrel for petroleum blends produced by the OPEC countries) declining from a monthly average of \$107.89 in June 2014 to a monthly average of \$26.50 in January 2016, before partially recovering to \$62.14 as of March 1, 2018.

As a result of the decrease in government revenues occasioned by the recent decline in oil prices, the Saudi Arabian government recorded an actual budget deficit for 2015 equal to 15% of Saudi Arabia’s nominal GDP and for 2016 equal to 12.8% of Saudi Arabia’s projected nominal GDP. The Ministry of Finance has estimated that Saudi Arabia’s budget deficit for 2016 will be equal to approximately 13.5% of Saudi Arabia’s projected nominal GDP. In order to finance this budget deficit, the government has utilized a portion of its reserve assets and incurred additional indebtedness, and may continue to do so in the future, to the extent necessary.

Potential investors should also note that many of Saudi Arabia’s other economic sectors are in part dependent on the oil sector, and the above analysis does not take into account the indirect impact that a prolonged or further decline in oil prices may have on Saudi Arabia’s economy. Sectors such as education, healthcare and housing, may, indirectly, be adversely affected by lower levels of economic activity that may result from lower government revenues from the oil sector. Given the Special Opportunities strategy’s focus on Saudi Arabian investments, any adverse effect to Saudi Arabia would likely have a corresponding adverse effect on such strategies.

**Geopolitical Events.** Saudi Arabia is located in a region that is strategically important and parts of this region have been subject to political and security concerns, especially in recent years. Several countries in the region are currently subject to armed conflicts and/or social and political unrest. These geopolitical events may contribute to instability in the Middle East and surrounding regions (that may or may not directly involve Saudi Arabia) and may have a material adverse effect on Saudi Arabia’s attractiveness for foreign investment and capital, its ability to engage in international trade and, subsequently, its economy and financial condition. Furthermore, such geopolitical events may also contribute to increased defense spending, which could in turn have an adverse impact on Saudi Arabia’s fiscal position or the budget available for other projects, which could have an adverse effect on the Special Opportunities strategy.

**Physical Commodities.** The Funds and Managed Accounts may invest in physical commodities such as gold and other precious metals. As such, the Funds and Managed

Accounts may be subject to the special risks associated with investing in gold and other precious metals, including (i) the price of gold or other precious metals may be subject to wide fluctuation; (ii) the market for gold or other precious metals is relatively limited; (iii) the sources of gold or other precious metals are concentrated in countries that have the potential for instability; and (iv) the market for gold and other precious metals is unregulated.

Gold bullion and other precious metals have at times been subject to substantial price fluctuations over short periods of time and may be affected by unpredictable monetary and political policies such as currency devaluations or revaluations, economic and social conditions within a country, trade imbalances, or trade or currency restrictions between countries. The prices of gold bullion and other precious metals, however, are less subject to local and company-specific factors than securities of individual companies.

As a result, gold bullion and other precious metals may be more or less volatile in price than securities of companies engaged in precious metals-related businesses. Investments in gold bullion and other precious metals can present concerns such as delivery, storage and maintenance, possible illiquidity, and the unavailability of accurate market valuations. A Fund or Managed Account may incur higher custody and transaction costs for gold bullion and other precious metals than for securities. Also, gold bullion and other precious metals investments do not pay income.

The majority of producers of gold bullion and other precious metals are domiciled in a limited number of countries. In 2015, the five largest producers of gold were China, Australia, Russia, the United States, and Peru. Economic and political conditions in those countries may have a direct effect on the production and marketing of gold and on sales of central bank gold holdings.

While any gold bullion (or other precious metals) held by the Funds and Managed Accounts would be kept with a qualified custodian, the physical nature of such assets mean that they would be subject to a greater risk of loss or theft than other securities or instruments which are evidenced by written contract or book entry on the custodian's systems.

**Unusual Securities or Other Investment Creations.** The Adviser may cause a Fund(s) or Managed Account(s) to invest in unusual securities or other investments created for particular purposes that are not of a type typically traded in the securities markets. Examples of such securities or other investments include, but are not limited to, publicly traded limited liability companies, contingent payment rights, and securities whose value is contingent upon the occurrence of a series of events. There may be no liquid market for such securities or other investments. The market prices, if any, of such investments tend to be more volatile and it may be impossible to sell such investments when desired or to realize their fair value in the event of a sale. Moreover, securities in which the Fund or

Managed Account may invest include those that are not listed on a stock exchange or traded in an over-the-counter market. As a result of the absence of a public trading market for these securities, they may be less liquid than publicly traded securities. There may be substantial delays in attempting to sell non-publicly traded securities. Although these securities may be resold in privately negotiated transactions, the prices realized from these sales could be less than those originally paid. Further, companies whose securities are not publicly traded are not subject to the disclosure and other investor protection requirements which would be applicable if their securities were publicly traded.

**Representation on Boards of Directors.** The Funds and/or Managed Accounts may seek to designate a director to serve on the board of directors of the companies in which they invest. Such director may be a principal, employee, member, manager or other affiliate of the Adviser. The designation of directors could expose the assets of the Funds or Managed Accounts to claims by such companies, their security holders and their creditors. While the Adviser intends to manage the Funds and Managed Accounts to minimize exposure to these risks, the possibility of successful claims against the Funds and Managed Accounts cannot be precluded.

**Default and Counterparty Risk.** Some of the markets in which the Funds and Managed Accounts will effect transactions are “over-the-counter” or “interdealer” markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of “exchange based” markets. Similarly, digital currency exchanges that the Funds may trade on are not SEC or CFTC-regulated and may subject the Fund to counterparty risks similar to those of trading with other counterparties. This exposes the Funds and Managed Accounts to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Funds and Managed Accounts to suffer a loss. In addition, in the case of a default, the Funds and Managed Accounts could become subject to adverse market movements while replacement transactions are executed. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Fund or Managed Account has concentrated its transactions with a single or small group of counterparties. The ability of a Fund or Managed Account to transact business with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparties’ financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Funds and Managed Accounts.

In situations where a Fund or an Underlying Fund places assets in the care of a custodian or is required to post margin or other collateral with a counterparty, the custodian or the counterparty may fail to segregate such assets or collateral, as applicable, or may

commingle the assets or collateral with the relevant custodian's or counterparty's own assets or collateral, as applicable, even if contractually limited or prohibited from doing so. As a result, in the event of the bankruptcy or insolvency of any custodian or counterparty, the Fund's or such Underlying Fund's excess assets and collateral may be subject to the conflicting claims of the creditors of the relevant custodian or counterparty, and the Fund or such Underlying Fund may be exposed to the risk of a court treating the Fund or such Underlying Fund as a general unsecured creditor of such custodian or counterparty, rather than as the owner of such assets or collateral, as the case may be. In certain cases, assets of the Fund or an Underlying Fund may be placed in the care of a non-U.S. custodian. In any such case, the bankruptcy or insolvency of such custodian will be governed under the laws of the local jurisdiction, which may be less favorable to the Fund or an Underlying Fund or provide less protection to the Fund's or an Underlying Fund's assets than U.S. law.

The Digital Network Fund does not intend to engage the services of a prime broker. However, an Underlying Fund may purchase, sell, borrow and lend securities through U.S. prime brokers or foreign affiliates of such prime brokers and have assets held at accounts of such prime brokers or their foreign affiliates. If an Underlying Fund's assets are held at a U.S. prime broker, in the event of the bankruptcy or insolvency of such prime broker, even if assets are segregated, such Underlying Fund may be subject to risk that it will not receive a complete return of those assets. Under SEC rules, the prime broker is required to segregate "fully paid" customer securities and "excess margin securities" for the benefit of customers. In addition, pursuant to the SEC reserve formula, the prime broker is required to place customer funds in a segregated account for the benefit of customers to assure that there will be sufficient assets to satisfy all customer claims. Nonetheless, except with respect to physical securities held in an Underlying Fund's name, such Underlying Fund will not have a right to the return of specific assets but rather will generally have a claim based on the net equity in its account. A customer's net equity claim equals the dollar value of (i) all cash held in a customer's account for the purchase of securities (including proceeds from the sale of securities) plus (ii) the value of securities held in such account (determined as of the date of the bankruptcy petition filing), less any amounts owed by the customer to the broker-dealer. With respect to securities, the Fund or an Underlying Fund will be entitled to its proportionate share of securities held by the prime broker on behalf of all customers. If there is a shortfall, the customers will share proportionally in the loss. With respect to cash, there will be a net calculation whereby all obligations owed to the prime broker are netted against all cash owed to customers. Securities Investor Protection Corporation ("**SIPC**") will guarantee the shortfall up to \$500,000 per customer account with a maximum of \$250,000 in cash. Many firms have additional liquidation insurance which may supplement the SIPC insurance coverage. In the event that there are still customer shortfalls after all of the insurance coverage is used, the Fund or such Underlying Fund will become a general unsecured creditor of the prime broker for the remainder of its claim. In the event that the Fund's or such Underlying Fund's assets are used to support

margin loans or are otherwise re-hypothecated, the assets will not be protected under the SEC segregation requirement, reserve formula or SIPC liquidation insurance.

Further, not all activities or transactions conducted with the prime broker are subject to these customer protection rules. If the assets are custodied with a foreign broker-dealer, the above U.S. regulations do not apply and the law in the local jurisdiction will govern the disposition of assets of the broker-dealer upon liquidation. Such proceedings may be time consuming and costly. In some cases, the Fund or an Underlying Fund may become an unsecured creditor of the foreign entity where the Fund's or such Underlying Fund's assets were held.

The Fund or an Underlying Fund may be subject to the risk that issuers of the instruments in which it invests and trades may default on their obligations under those instruments, and that certain events may occur which have an immediate and significant adverse effect on the value of those instruments. There can be no assurance that an issuer of an instrument in which the Fund or an Underlying Fund invests will not default, or that an event which has an immediate and significant adverse effect on the value of an instrument will not occur, and that the Fund or such Underlying Fund will not sustain a loss on a transaction as a result.

Transactions entered into by the Fund or an Underlying Fund may be executed on various U.S. and non-U.S. exchanges, and cleared and settled through various clearing houses, custodians, depositories and prime brokers throughout the world. Although the Funds will attempt to execute, clear and settle the transactions through entities the Adviser believes to be sound, there can be no assurance that a failure by any such entity will not lead to a loss to the Funds.

**Sovereign Debt.** The Funds and Managed Accounts may invest in debt securities issued by governments and their agencies, including governments of emerging markets. Investing in instruments of government issuers in emerging markets may involve significant economic and political risks. Holders of certain emerging market instruments may be requested to participate in the restructuring and rescheduling of these obligations and to extend further loans to their issuers. The interests of holders of emerging market instruments could be adversely affected in the course of restructuring arrangements. Sovereign debt rated below investment grade by a nationally recognized bond rating organization is regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations.

**Loans.** The Funds and Managed Accounts may invest in loans. Loans may include fixed or floating rate loans arranged through private negotiations between one or more financial institutions and an obligor. Although loans are traded among certain financial institutions, some of the loans the Funds and Managed Accounts may invest in maybe illiquid.

**Loan Participation.** The Funds and Managed Accounts may invest in loan participations. Investment in loan participations involves certain risks in addition to those associated with

direct loans. A loan participant has no contractual relationship with the borrower of the underlying loan. As a result, the participant is generally dependent upon the lender to enforce its rights and obligations under the loan agreement in the event of a default and may not have the right to object to amendments or modifications of the terms of such loan agreement. A participant in a syndicated loan generally does not have the voting rights, which are retained by the lender. In addition, a loan participant is subject to the credit risk of the lender as well as the borrower, since a loan participant is dependent upon the lender to pay its percentage of payments of principal and interest received on the underlying loan. The Funds and Managed Accounts will acquire participations only if the seller of the participation is determined in the judgment of the Adviser to be creditworthy.

**Illiquid Assets.** Certain investment positions of the Funds and Managed Accounts may be illiquid or not readily marketable. The Funds and Managed Accounts may invest in “restricted” or non-publicly traded securities and will invest in securities traded on foreign exchanges. The Funds and Managed Accounts may take significant stakes in small-cap or thinly traded companies. The Funds and Managed Accounts may not be readily able to dispose of such non-publicly traded and illiquid or not readily marketable public securities and, in some cases, may be contractually prohibited from disposing of such securities for a specified period of time. An exchange or regulatory authority may suspend trading in a particular security or contract, order immediate liquidation and settlement of a particular contract or order that trading in a particular contract be conducted for liquidation only. In the Adviser’s discretion, the Funds and Managed Accounts may effect in kind distributions with respect to such illiquid, not readily marketable or non-publicly traded securities. Investors that receive in kind distributions may not be able to dispose of such securities for an indefinite period of time.

**Limited Liquidity.** An investment in the Funds and Managed Accounts advised by Passport is suitable only for sophisticated investors who have no need for liquidity in their investment. An investment in the Funds or Managed Accounts provides limited liquidity. Interests in the Funds are not freely transferable and withdrawals and redemptions are subject to applicable lock-ups and other restrictions such as notice requirements and specified dates when withdrawals and redemptions are permitted. Withdrawal and redemption proceeds may be paid in-kind, in a form that may be illiquid, not easily disposable or readily marketable for an extended period of time. Withdrawals and redemptions are also subject to the withdrawal and redemption limits, suspension of withdrawals and redemptions and other restrictions described in the PPMs and IMAs.

**Incentive Allocation or Performance-Based Fee.** The allocation to the Adviser or its affiliates of a percentage of each investor’s net capital appreciation for a fiscal year, or the payment to the Adviser of a performance-based fee, may create an incentive for the Adviser to cause the Funds or Managed Accounts to make investments that are riskier or more

speculative than would be the case if this special allocation or payment of performance fees were not made, as noted in Item 6 above. In addition, since the Adviser or its affiliate's incentive allocation and performance fees are calculated on a basis which includes unrealized appreciation of the Fund's or Managed Account's assets, such allocations and fees may be greater than if it were based solely on realized gains. The incentive allocation made and performance-based fees paid by the Clients to the Adviser or its affiliate were set by the Adviser or its affiliates without negotiations with any third party.

**Valuation of the Fund's or Managed Account's Assets.** The Adviser has delegated to an administrator (the "Administrator") the determination of the net asset value of certain of the Funds (with the exception of Passport Ventures, LLC and certain co-investment vehicles) and Managed Accounts. In determining the net asset value, the Administrator will follow the valuation policies and procedures adopted by the Adviser. If and to the extent that the Adviser or its affiliates are responsible for or otherwise involved in the pricing of any of the Funds' or Managed Accounts' portfolio securities or other assets, the Administrator may accept, use and rely on such prices in determining the net asset value of the Fund or Managed Account and shall not be liable to the Fund or Managed Account or any investor, or the Adviser, or any other person in so doing. Since the Funds and Managed Accounts may hold a significant portion of their assets in a form of illiquid, not readily marketable or non-publicly traded securities or other investments, the value assigned to such securities or other investments by the Adviser or its affiliates and/or the Administrator may materially differ from the actual value received for such securities or other investments upon a happening of a liquidation event with respect to such securities or other investments.

**Reliance on Technology and Electronic Trading.** The Adviser relies heavily on computer hardware and software, online services and other computer-related or electronic technology and equipment to facilitate the investment activities of its Clients. Specifically, the Adviser may trade financial instruments through electronic trading or order routing systems, which differ from traditional open outcry pit trading and manual order routing methods. Such electronic trading exposes the Clients to risks associated with system or component failure, which could render the Adviser unable to enter new orders, execute existing orders or modify or cancel previously entered orders. System or component failure may also result in loss of orders or order priority. Should events beyond the Adviser's control cause a disruption in the operation of any technology or equipment, the investment program of the Clients may be severely impaired, causing it to experience substantial losses or other adverse effects.

A disaster or a disruption in the infrastructure that supports the Adviser's business, including a disruption involving electronic communications or other services used by it or third parties with whom it conducts business, or directly affecting one of its offices or



facilities, may have a material adverse effect on its ability to continue to operate the business without interruption. Although the Adviser has a business continuity program in place, there can be no assurance that this will be sufficient to mitigate the harm that may result from such a disaster or infrastructure disruption. In addition, insurance and other safeguards might only partially mitigate the effects of such a disaster or disruption.

**Cybersecurity Risk.** The Adviser's hardware and software systems are subject to threats from hackers and others, such as a malicious attack, malware or other event that leads to unanticipated interruption or malfunction of such systems. Any interruption of the Adviser's hardware or software functionality could lead to material or even complete losses to a Client. Hackers could also theoretically access and steal the Adviser's research, models, trading programs or other software or data and implement such programs or software on their own behalf. This could lead to increased competition for, or elimination of, the investment opportunities sought by any of the Clients or otherwise render the models developed by the Adviser obsolete, possibly resulting in material or complete losses to a Client.

**Conflicts Associated with the Adviser's or its Affiliates' Other Activities.** The Adviser and/or its affiliates may also elect in the future to sponsor, manage or participate in other securities and other investment activities and programs unrelated to the Funds and Managed Accounts (some of which may compete with the Funds and Managed Accounts' investment activities). The Adviser and/or its affiliates may also engage in business ventures unrelated to the activities of the Funds and Managed Accounts and business opportunities that relate to, or which they became aware of because of, investments made by a Fund(s) or Managed Account(s) but which opportunities are deemed by the Adviser not to be suitable for the Fund's or Managed Account's portfolio. Investors in the Funds and Managed Accounts will have no right to participate in such activities of the Adviser or its affiliates and will have no right to participate in any profits generated from such activities. The Adviser may in certain circumstances enter into agreements with companies owned by, or affiliated with, the Adviser or its principals, the expenses of which are borne by the Funds or the Managed Accounts. The Adviser will enter into such arrangements only if it determines that such arrangements are made on arm's length and the fees to be paid are reasonable in relation to similar services available in the marketplace. In particular, the Adviser has entered into an agreement with DeMARK Analytics, a data analytics provider that is less than 25% owned by John Burbank. The Adviser uses soft dollars generated by the trading of the Funds and Managed Accounts to pay DeMARK's fees. While the Adviser has determined that the DeMARK arrangement is on arm's length, and that the fees payable to DeMARK are reasonable, Mr. Burbank's ownership of DeMARK creates a conflict in that he has an incentive to cause the Adviser to maintain such arrangement for his own personal benefit. The Adviser's or its affiliates' judgment may be

affected by the conflicts of interests inherent in such relationships and activities. Examples of these conflicts include:

1. **Competing Time Pressures.** The other activities of the Adviser and its affiliates will create conflicts of interest with the Funds and Managed Accounts over the time devoted to managing the portfolios of the Funds and Managed Accounts versus the time devoted to other activities.
2. **Conflicting Fiduciary Duties.** Because the Adviser and its affiliates may have fiduciary duties to a Fund or Managed Account and to other clients, the interests of a Fund or Managed Account and the other clients in the selection, allocation, negotiation and administration of investments may conflict, and the Adviser and its affiliates will be subject to conflicting demands on their time and attention. The Adviser and its affiliates will attempt to resolve all such conflicts in a manner that is fair to all such interests.

Please also see Item 10 below “Other Financial Industry Activities and Affiliations” below for additional information regarding conflicts associated with the Advisers’ or its affiliates’ other activities.

**Allocation of Investment Opportunities.** The Adviser on behalf of the Funds and Managed Accounts, and in other capacities with other entities or for its own accounts, will have discretion in determining which investments will be made by the Funds, Managed Accounts or other clients, sold to others, or made by the Adviser or their affiliates with or without the participation of the Funds or Managed Accounts. In addition, the Adviser may be able to obtain more favorable compensation, cost reimbursement or risk-sharing arrangements in connection with some investments if a Fund or Managed Account does not participate and the Adviser or its affiliates may be influenced to refrain from causing a Fund or Managed Account to make such investments even though participation might benefit such Fund or Managed Account. Under the governing documents of a Fund or Managed Account (which investors and potential investors should carefully review) the Adviser or its affiliates may be permitted to make any investments, whether or not in competition with a Fund or Managed Account or in a manner that would limit or eliminate such Fund’s or Managed Account’s opportunity to make the investment, without any accountability to such Fund or Managed Account.

When two or more share classes of a Fund(s) or Managed Account seek to purchase the same securities, the securities actually purchased or sold will be allocated among the share classes on a good faith equitable basis by the Adviser or its affiliates in their sole discretion in accordance with the respective investment objectives and policies of each share class, including any special investment policies of a particular share class, and the procedures adopted by the Adviser

**Possible Effects of Withdrawals and Redemptions.** Substantial withdrawals or redemptions could require a Fund or Managed Account to liquidate investments more rapidly than would otherwise be desirable to raise the necessary cash to fund the withdrawals or redemptions and to achieve a market position appropriately reflecting a smaller equity base. Applicable withdrawal or redemption limits are intended to mitigate this risk, but will not eliminate it. This situation could adversely affect the value of interests in the Funds and Managed Accounts.

**Suspension of Withdrawals and Redemptions.** As more particularly described in the PPMs and IMAs, the Adviser or its affiliates generally may suspend the right of any investor to withdraw capital or to receive a distribution from a Fund or Managed Account if, in the Adviser's judgment, such a suspension would be in the best interests of such Client.

**Limited Liquidity of Interests.** An investment in the Funds provides limited liquidity because interests in the Funds are not freely transferable and generally an investor has limited rights to withdraw any or all of its interests in the Fund. In addition, as mentioned above, the general partner or directors of the Funds, as the case may be, may limit or suspend the rights of investors to make withdrawals in certain circumstances. The Funds are intended for long-term investors who can accept the risks associated with investing primarily in assets that involve a high degree of financial risk and are potentially illiquid. There is no public market for the interests and no such market is expected to develop in the future. Investors may not sell, transfer, exchange, assign, pledge, hypothecate or otherwise dispose of their interests in the Funds (or any portion thereof) without the consent of the general partner or Adviser, as the case may be, which may be withheld for any reason or no reason.

In addition, while the Funds intend to use commercially reasonable efforts to make withdrawal payments in cash upon an investor withdrawal, there can be no assurance that the Funds will have sufficient cash to satisfy withdrawal requests, or that it will be able to liquidate investments at favorable prices at the time of such withdrawal request. Substantial withdrawals by Fund investors within a limited period of time could require the liquidation of positions more rapidly than would otherwise be desirable, which could adversely affect the value of the equity interests of both withdrawing investors and remaining investors.

Under the foregoing circumstances, and under other circumstances deemed appropriate by the general partner or directors, as the case may be, the general partner or directors, as applicable, may (but are not required to) make in-kind withdrawal payments to investors from the Fund's portfolio. Such investments so distributed may not be readily marketable or salable investor and may have to be held by such investor for an indefinite period of time. At the discretion of the general partner or directors of the Fund, the Fund may satisfy

withdrawal requests through an in-kind distribution of interests or shares of a special purpose vehicle (“**SPV**”) owned by the Fund, with the SPV holding assets contributed by the Fund, which may include a participation interest in investments of the Fund. Additionally, any risk of loss and delay in liquidating these investments will be borne by the investor, with the result that such investor may receive less cash than it would have received on the date of withdrawal. The general partner or directors of the Fund, as applicable, will determine the percentage of any distribution to be made in cash and the percentage to be made in-kind, as well as the particular assets, if any, to be distributed; provided, however, that at the time a distribution in-kind is being made, no investor receiving such distribution will receive a distribution in-kind in excess of its pro rata share of the investments distributed in-kind at such time.

**Co-Investments; Broken Deal Expenses.** Certain of the Funds may offer certain investors the opportunity to co-invest alongside a Fund or a fund investment vehicle in an investment opportunity. In determining which investors will be offered co-investment opportunities, the Adviser will consider, among other things, whether an investor played a role in sourcing a particular opportunity, the ability of an investor to execute a co-investment transaction quickly and efficiently, the reliability and creditworthiness of an investor, an indication of interest from an investor in co-investment opportunities (it being understood, for the avoidance of doubt, that an investor’s indication of its interest in co-investment opportunities will not ensure its consideration for any opportunity) and any other strategic considerations (including, but not limited to, the length of time that an investor has had an investment relationship with the Adviser and the amount of an investor’s investment in the Fund or another Fund). If the Fund offers certain investors a co-investment opportunity, the size of the investment opportunity otherwise available to Fund may be less than it would have been. In addition, certain investors may participate in co-investment opportunities on the basis of no, or a reduced or increased, management fee, incentive allocation or other performance-related compensation. Further, in the event co-investment vehicles or co-investors, including other vehicles managed or controlled by the Adviser, may have invested alongside the Fund in a deal that is ultimately not consummated, they generally will not bear their share of broken deal expenses (such as legal fees, reverse termination fees, extraordinary expenses such as litigation costs and judgments and other expenses) for such unconsummated transactions. In certain circumstances a co-investor that has been identified by the Fund and has committed to be responsible for its share of broken deal expenses will be allocated a share of such expenses.

### **Risks Related to Digital Currencies**

The further development and acceptance of digital currencies, which are part of a new and rapidly changing industry, are subject to a variety of factors that are difficult to evaluate.

The slowing or stopping of the development or acceptance of such currencies may adversely affect an investment.

The use of digital currencies to, among other things, buy and sell goods and services is part of a new and rapidly evolving industry that employs digital currency assets based upon a computer-generated mathematical and/or cryptographic protocol. Bitcoin and Ether are prominent, but not unique, parts of this industry. The growth of this industry is subject to a high degree of uncertainty. The factors affecting the further development of this industry, include, but are not limited to:

- continued worldwide growth in the adoption and use of digital currencies;
- government and quasi-government regulation of digital currencies and their use, or restrictions on or regulation of access to and operation of digital currency networks;
- changes in consumer demographics and public tastes and preferences;
- the maintenance and development of the open-source software protocol of the digital currency networks;
- the availability and popularity of other forms or methods of buying and selling goods and services, including new means of using fiat currencies;
- the use of the networks supporting digital currencies for developing smart contracts and distributed applications;
- general economic conditions and the regulatory environment relating to digital currency assets; and
- negative consumer or public perception of digital currencies.

**Recent Deployment of Certain Digital Currencies.** Digital currency networks are new and being rapidly developed. The Ethereum network and the Ethereum network software, for instance, are in their early stages. The production version of the blockchain on the Ethereum network was launched in March 2016. As a result, the Ethereum network has undergone less testing than the older, more established Bitcoin network. Bitcoin was created in 2009 and XRP and the Ripple network were released in 2012.

**Price Volatility of Digital Currencies.** Perhaps in part because of their youth, digital currencies have experienced sharp fluctuations in value. If such volatility continues, it may have an adverse effect on the willingness of parties, other than speculators, to receive digital currency units in a transaction. Moreover, the price of a digital currency is based in large part on the perceived value of the digital currency and subject to changes in sentiment, among other factors, making these products highly volatile. For example, certain

digital currencies have experienced daily price volatility of more than 20%. The extreme price volatility of digital assets and the possibility of rapid and substantial price movements could result in significant losses by a Fund or an Underlying Fund.

**Limited Use in the Marketplace.** Digital currencies are not legal tender in the United States and many question whether they have intrinsic value. The price of many digital currencies is based on the agreement of the parties to a transaction. Currently, there is relatively limited use of any digital currency in the retail and commercial marketplace in comparison to relatively extensive use as a store of value, thus contributing to price volatility that could adversely affect an investment. Digital currency has only recently become selectively accepted as a means of payment for goods and services by many major retail and commercial outlets, and use of digital currency by consumers to pay such retail and commercial outlets remains limited. Banks and other established financial institutions may refuse to process funds for digital currency transactions; to process wire transfers to or from digital currency exchanges, digital currency-related companies or service providers; or to maintain accounts for persons or entities transacting in digital currency. Conversely, a significant portion of digital currency demand is generated by investors seeking a long-term store of value or speculators seeking to profit from the short- or long-term holding of the asset. Price volatility undermines any digital currency's role as a medium of exchange, as retailers are much less likely to accept it as a form of payment. Market capitalization for a digital currency as a medium of exchange and payment method may always be low. A lack of expansion by digital currency into retail and commercial markets, or a contraction of such use, may result in increased volatility or a reduction in the value of the currency, either of which could adversely affect an investment in the Funds. Some research suggests that acceptance of digital currencies as a means of payment for goods and services has declined in the past year. There can be no assurance that such acceptance will grow, or not decline, in the future.

**Scalability Risks.** Digital currencies face significant scaling obstacles that can lead to high fees or slow transaction settlement times, and attempts to increase the volume of transactions may not be effective. Many digital currency networks face significant scaling challenges. For example, as of July 2017, Bitcoin could handle, on average, five to seven transactions per second, and Ethereum could handle approximately seven to 15 transactions per second. For several years, participants in the Bitcoin ecosystem debated potential approaches to increasing the average number of transactions per second that the Bitcoin network could handle. As of August 2017, Bitcoin was upgraded with a technical feature known as "segregated witness" that, among other things, would potentially approximately double the transactions per second that can be handled on-chain. More importantly, segregated witness also enables so-called second layer solutions, such as lightning or payment channels, that allow potentially unlimited transactions throughput

(i.e., millions to billions of transactions per second). A technology similar to lightning is being developed for Ethereum called Raiden.

Wallets and intermediaries that support segregated witness or lightning-like technology do not yet have material adoption as of October 2017. Additionally, lightning has not yet seen significant use and there are open questions about lightning services, such as the cost of and who will serve as lightning intermediaries, among other questions.

Other digital currencies, like Bitcoin Cash or Ethereum, also have other mechanisms implemented or in research thought to increase scale, such as increasing the allowable sizes of blocks, and therefore the number of transactions per block, and sharding, which would not require every single transaction to be included in every single miner's or validator's block.

As the use of digital currency networks increases without a corresponding increase in throughput of the networks, average fees and settlement times can increase significantly. Bitcoin's network, for example, has been, at times, at capacity, which has led to very high transaction fees. Since January 1, 2017, Bitcoin transaction fees have increased from \$0.39 per Bitcoin transaction, on average, to a high of \$5.50 per transaction on June 5, 2017, on average. As of November 6, 2017, Bitcoin transaction fees stood at \$5.32 per Bitcoin transaction, on average.

Increased fees and decreased settlement speeds could preclude certain use cases for digital currencies (e.g., micropayments), and can reduce demand for and the price of digital currencies, which could adversely affect an investment.

There is no guarantee that any of the mechanisms in place or being explored for increasing the scale of settlement of digital currency transactions will be effective, or how long they will take to become effective, which could adversely affect an investment.

**Valuation and Liquidity of Digital Currencies.** Digital currencies can be traded through privately negotiated transactions and through numerous digital currency exchanges around the world. The lack of a centralized pricing source for these types of assets often poses a variety of valuation challenges. Additionally, the dispersed liquidity of digital currencies may pose challenges for market participants trying to exit a position, particularly during periods of stress.

Because of these factors and the greater uncertainty surrounding digital currency transactions, a Fund or an Underlying Fund may face a meaningful possibility of substantial losses as a result of such risks. For example, a reduction in liquidity may impair a Fund or an Underlying Fund's ability to acquire or dispose of its investments at a price and time that such fund deems advantageous, and may likewise reduce the pool of profitable

investment strategies for such fund. A reduction in liquidity in a digital currency could also have a material adverse effect on the price of the currency and consequently the value of an investment. Additionally, the valuation challenges surrounding digital currencies could, among other things, cause adverse pricing for a Fund or an Underlying Fund, thereby adversely affecting the performance of certain of the Fund or Underlying Fund's trading strategies. Valuation challenges with digital currencies may also involve uncertainties and discretionary determinations with respect to valuations of a Fund or an Underlying Fund's portfolio, which will affect the amount of the applicable management fee and incentive allocation.

**Opaque Spot Digital Currency Market.** Digital currency balances are generally maintained as an address on the blockchain and are accessed through private keys, which may be held by a market participant or a custodian. Although digital currency transactions are typically publicly available on a blockchain or distributed ledger, the public address does not identify the controller, owner or holder of the private key. Thus, unlike bank or brokerage accounts, digital currency exchanges and custodians that hold digital currencies do not always identify the owner. The opaque nature of the underlying or spot digital currency market poses asset verification challenges for market participants, regulators and auditors and gives rise to an increased risk of manipulation and fraud, including the potential for Ponzi schemes, bucket shops and pump and dump schemes. Any such manipulation or fraud could adversely affect an investment in a Fund or an Underlying Fund. For example, an actual event of manipulation or fraud could lead to some or all of a Fund or Underlying Fund's digital currencies being lost, stolen, destroyed or inaccessible. The ability of such fund to discover and recover such losses may be impaired as a result of the opaque nature of the spot market and the possible limited liability and resources of some market participants, digital currency exchanges and custodians. In addition, instances of manipulation or fraud could lead to a loss of confidence in digital currency networks and decrease the market price of a Fund or Underlying Fund's investments.

**Loss of Access Risks.** The loss or destruction of a private key required to access a Fund's or an Underlying Fund's digital currencies may be irreversible. The loss of access to the private keys associated with the Fund's or the Underlying Fund's digital currency assets could adversely affect an investment. Digital currencies are controllable only by the possessor of both the unique public key and private key or keys relating to the "digital wallet" in which the currency is held. Private keys must be safeguarded and kept private in order to prevent a third party from accessing the digital currency while held in such wallet. To the extent a private key is lost, destroyed or otherwise compromised and no backup of the private key is accessible, the Fund or the Underlying Fund will be unable to access the digital currency held in the related digital wallet. Any loss of private keys relating to digital



wallets used to store a Fund's or an Underlying Fund's digital currency could adversely affect an investment.

**Irrevocability of Transactions.** Digital currency transactions are irrevocable and stolen or incorrectly transferred digital currencies may be irretrievable. As a result, any incorrectly executed digital currency transactions could adversely affect an investment. Digital currency transactions are not, from an administrative perspective, reversible without the consent and active participation of the recipient of the transaction or, in theory, control or consent of a majority of the aggregate hashrate on the respective digital currency network. Once a transaction has been verified and recorded in a block that is added to the blockchain, an incorrect transfer of digital currency or a theft of digital currency generally will not be reversible, and a Fund or an Underlying Fund may not be capable of seeking compensation for any such transfer or theft. It is possible that, through computer or human error, or through theft or criminal action, a Fund's or an Underlying Fund's digital currency could be transferred from custody accounts in incorrect quantities or to unauthorized third parties. To the extent that the Fund or such Underlying Fund is unable to seek a corrective transaction with such third party or is incapable of identifying the third party that has received the Fund's or such Underlying Fund's digital currency through error or theft, the Fund or such Underlying Fund will be unable to revert or otherwise recover incorrectly transferred digital currency. To the extent that the Fund or such Underlying Fund is unable to seek redress for such error or theft, such loss could adversely affect an investment in the Fund.

*Risks of Flawed or Ineffective Source Code.* If the source code or cryptography underlying a digital currency held by a Fund or an Underlying Fund proves to be flawed or ineffective, malicious actors may be able to steal the Fund's or such Underlying Fund's digital currency assets. In the past, flaws in the source code for digital currencies have been exposed and exploited. Several errors and defects have been publicly found and corrected, including those that disabled some functionality for users and exposed users' personal information. Discovery of flaws in, or exploitations of, the source code that allow malicious actors to take or create money in contravention of known network rules have occurred. In addition, the cryptography underlying a digital currency could prove to be flawed or ineffective, or developments in mathematics and/or technology, including advances in digital computing, algebraic geometry and quantum computing, could result in such cryptography becoming ineffective. In any of these circumstances, if a Fund or an Underlying Fund holds the affected digital currency, a malicious actor may be able to steal the Fund's or such Underlying Fund's digital currency assets, which would adversely affect an investment in the Fund or Underlying Fund. Even if the Fund or an Underlying Fund did not hold the affected digital currency, any reduction in confidence in the source code or cryptography underlying digital currencies generally could negatively affect the demand for digital

currencies and therefore adversely affect an investment in the Fund or the Underlying Fund.

*Risks of Control by Malicious Actors or Botnets.* If a malicious actor or botnet obtains control of more than 50% of the processing power on a digital currency network, such actor or botnet could manipulate the blockchain to adversely affect a Fund's or an Underlying Fund's investments or the ability of the Fund or an Underlying Fund to operate. If a malicious actor or botnet (a volunteer or hacked collection of computers controlled by networked software coordinating the actions of the computers) obtains a majority of the processing power dedicated to mining on a digital currency network, it may be able to alter the blockchain on which the network and most transactions rely by constructing fraudulent blocks or preventing certain transactions from completing in a timely manner, or at all. The malicious actor or botnet could control, exclude or modify the ordering of transactions. However, it could not generate new digital currency units or transactions using such control. The malicious actor could "double-spend" its own digital currency units (*i.e.*, spend the same units in more than one transaction) and prevent the confirmation of other users' transactions for so long as it maintained control. To the extent that such malicious actor or botnet did not yield its control of the processing power on the digital currency network or the network community did not reject the fraudulent blocks as malicious, reversing any changes made to the blockchain may not be possible.

Although there are no known reports of malicious activity or control of a blockchain achieved through controlling over 50% of the processing power on the network, it is believed that certain mining pools may have exceeded the 50% threshold on the Bitcoin network. The possible crossing of the 50% threshold generates an enhanced risk that a single mining pool could exert authority over the validation of Bitcoin transactions. To the extent that a digital currency ecosystem, including core developers and the administrators of mining pools, does not act to ensure greater decentralization of mining processing power, the feasibility of a malicious actor obtaining control of the processing power on the network will increase, which may adversely affect an investment in the Fund or an Underlying Fund.

*Risk of a Blockchain "Fork".* A temporary or permanent blockchain "fork" could adversely affect an investment. Some digital currencies, including Bitcoin and Ether, are open source, meaning that any user can download the software, modify it and then propose that the users and miners of the currency adopt the modification. When a modification is introduced and a substantial majority of users and miners consent to the modification, the change is implemented and the network remains uninterrupted. However, if less than a substantial majority of users and miners consent to the proposed modification, and the modification is not compatible with the software prior to its modification, the consequence would be what is known as a "fork" of the network, with one prong running the pre-

modified software and the other running the modified software. The effect of such a fork would be the existence of two versions of the digital currency running in parallel, yet lacking interchangeability.

Forks may occur after a significant security breach. In June of 2016, a smart contract using the Ethereum network was hacked, which resulted in most participants in the Ethereum ecosystem electing to adopt a “hard fork” that effectively reversed the hack. However, a minority of users continued to develop the old blockchain, now referred to as “Ethereum Classic” with the digital currency on that blockchain now referred to as Classic Ether, or ETC. Classic Ether remains traded on several digital currency exchanges.

Additionally, a fork could be introduced by an unintentional, unanticipated software flaw in the multiple versions of otherwise compatible software users run. Such a fork could adversely affect the digital currency’s viability. It is possible, however, that a substantial number of users and miners could adopt an incompatible version of the currency while resisting community-led efforts to merge the two chains. This would result in a permanent fork, as in the case of Ether and Classic Ether. If a permanent fork were to occur, then a Fund or an Underlying Fund could hold amounts of both the original digital currency and the new alternative.

Furthermore, a hard fork can introduce new security risks. For example, when Ether/Classic Ether split in July 2016, replay attacks, in which transactions from one network were rebroadcast to nefarious effect on the other network, plagued Ethereum exchanges through at least October 2016. An Ethereum exchange announced in July 2016 that it had lost 40,000 Classic Ether, which was worth about \$100,000 at that time, as a result of replay attacks. Another possible result of a hard fork is an inherent decrease in the level of security. After a hard fork, it may become easier for an individual miner or mining pool’s hashing power to exceed 50% of the processing power of the digital currency network, thereby making digital currencies that rely on proof of work more susceptible to attack.

In July 2017, Bitcoin “forked” into Bitcoin and a new digital currency, Bitcoin Cash, as a result of a several-year dispute over how to increase the rate of transactions that the Bitcoin network can process. In October 2017, Bitcoin forked into Bitcoin and a new digital currency called Bitcoin Gold, although as of November 5, 2017 the promoters of Bitcoin Gold had not yet publicly released software that would allow users to effect transactions or mine Bitcoin Gold. In November 2017, Bitcoin may be at an increased risk of yet another contentious hard fork, sometimes referred to as segwit2x or B2X, as a result of a compromise scaling agreement referred to as the “New York Agreement” reached in May 2017 by many Bitcoin companies, including miners, exchanges, traders and custodians, to pursue an upgrade to Bitcoin. Since the creation of Bitcoin Cash, many in the Bitcoin

community have been arguing that some of the changes to Bitcoin agreed to in the New York Agreement are no longer necessary. This disagreement may lead to another hard fork of Bitcoin if a significant group of miners enacts all of the New York Agreement changes while other miners do not. In the weeks leading up to the potential B2X fork, the B2X software does not have “replay protection,” increasing the risks that transactions on one blockchain can be replayed on another. A further hard fork of Bitcoin could affect demand for Bitcoin or other digital currencies and could adversely affect an investment in a Fund or an Underlying Fund.

Additionally, it may be unclear following a fork which fork represents the original asset and which is the new asset. Different metrics adopted by industry participants to determine which is the original asset include: wishes of the core developers of a digital currency, the blockchain with the greatest amount of hashing power contributed by miners or validators, or the blockchain with the longest chain. To the extent that a Fund must decide which fork is a continuation of an original asset and which is a new asset, the Fund will not look to any one factor as being dispositive and instead will seek to determine which asset is generally accepted as being the continuation of the original asset by looking at a number of factors, including those listed above, the actions of market participants, discussions on relevant forums, and the relevant spot and futures prices of the assets, among other factors.

A fork in the network of a particular digital currency could adversely affect an investment in a Fund or an Underlying Fund or the ability of the Fund or the Underlying Fund to operate.

*Inability to Realize Benefits of Hard Forks or “Air Drops”.* A Fund or an Underlying Fund may not be able to realize the economic benefit of a hard fork or “air drop,” either immediately or ever, which could adversely affect an investment. If the Fund or an Underlying Fund holds a digital currency asset at the time of a hard fork into two digital currency assets, it would be expected to hold an equivalent amount of the old and new assets following the hard fork. However, the Fund or such Underlying Fund may not be able, or it may not be practical, to secure or realize the economic benefit of the new asset for various reasons. For instance, a custodian or security service provider may not agree to provide the Fund or such Underlying Fund access to the new asset. In addition, the Fund or such Underlying Fund may determine that there is no safe or practical way to custody the new asset, or that trying to do so may pose an unacceptable risk to the Fund’s or such Underlying Fund’s holdings in the old asset, or that the costs of taking possession and/or maintaining ownership of the new digital currency exceed the benefits of owning the new digital currency.

Additionally, laws, regulation or other factors may prevent a Fund or an Underlying Fund from benefitting from the new asset even if there is a safe and practical way to custody and secure the new asset. For example, it may be illegal for the Fund or an Underlying Fund to sell the new asset, or there may not be a suitable market into which the Fund or an Underlying Fund can sell the new asset (either immediately after the fork or ever).

In addition, a digital currency held by the Fund or an Underlying Fund may become subject to a similar occurrence known as an “air drop.” In an air drop, the promoters of a new digital currency announce to holders of another digital currency that they will be entitled to claim a certain amount of the new digital currency for free. For example, in March 2017 the promoters of Stellar Lumens announced that anyone that owned Bitcoin as of June 26, 2017 could claim, until August 27, 2017, a certain amount of Stellar Lumens. For the same reasons as described above with respect to hard forks, the Fund or an Underlying Fund may or may not choose, or be able, to participate in an air drop, or may or may not be able to realize the economic benefits of holding the new digital currency asset. The timing of any such occurrence is uncertain and a Fund’s or an Underlying Fund’s participation would be subject to the discretion of the Adviser or the relevant Underlying Fund manager, respectively. Any inability to recognize the economic benefit of a hard fork or an air drop could adversely affect an investment.

**Risks of Internet Disruptions.** A disruption of the internet may affect the use of digital currencies and subsequently the value of an investor’s interest. Many digital currencies are dependent upon the internet. A significant disruption in internet connectivity could disrupt a currency’s network operations until the disruption is resolved and have an adverse effect on the price of digital currencies. In particular, some variants of digital currency have been subjected to a number of denial-of-service attacks, which have led to temporary delays in block creation and in the transfer of the currency. While in certain cases in response to an attack, an additional “hard fork” has been introduced to increase the cost of certain network functions, the relevant network has continued to be the subject of additional attacks. Moreover, it is possible that as digital currencies increase in value, they may become more attractive targets for hackers and subject to more frequent hacking and denial-of-service attacks.

Digital currencies are also susceptible to border gateway protocol hijacking, or BGP hijacking. Such an attack can be a very effective way for an attacker to intercept traffic en route to a legitimate destination. BGP hijacking impacts the way different nodes and miners are connected to one another to isolate portions of them from the remainder of the network, which could lead to a risk of the network allowing double-spending and other security issues. If BGP hijacking occurs on a digital currency network, participants may lose

faith in the security of digital currencies, which could affect the value of those digital currencies and consequently the value of an investment.

Any future attacks that affect the ability to transfer the digital currency could have a material adverse effect on the price of the currency and the value of an investment.

*Risks Relating to Supply and Demand.* A Fund or the Underlying Funds, as they grow, may have an impact on the supply and demand of certain digital currencies that ultimately may affect the value of the interests in the Fund or the Underlying Funds in a manner unrelated to other factors affecting the global market for such digital currencies.

There is no limit on the amount of digital currency the Funds or any Underlying Fund may hold. Additionally, new or existing investment vehicles like a Fund or the Underlying Funds or large speculative investors may acquire large positions in the digital currencies held, directly or indirectly, by the Fund. The global market for digital currency is characterized by supply constraints that differ from those present in the markets for commodities or other assets such as gold and silver. The mathematical protocols under which certain digital currencies are mined permit the creation of a limited, predetermined amount of currency, while others, such as Ether, have no limit established on total supply.

If the amount of a digital currency acquired by a Fund, the Underlying Funds, other investment vehicles or speculative investors is large enough relative to global supply and demand, further purchases or sales by such persons could have an impact on the supply of and demand for the relevant digital currency in a manner unrelated to other factors affecting the global market for digital currency assets. Such an impact could affect the trading prices for the relevant digital currency, which would directly affect the value of the interests of the Fund and any Underlying Funds.

*Risks of Intellectual Property Rights Claims.* Intellectual property rights claims may adversely affect the operation of digital currency networks. Third parties may assert intellectual property claims relating to the holding and transfer of digital currency assets and their source code. Regardless of the merit of any intellectual property or other legal action, any threatened action that reduces confidence in long-term viability or the ability of end-users to hold and transfer the currency may adversely affect an investment in the interests of the Funds or Underlying Funds. Additionally, a meritorious intellectual property claim could prevent a Fund, an Underlying Fund and other end-users from accessing, holding, or transferring their digital currency, which could force the liquidation of the Fund's or the Underlying Fund's holdings of a particular digital currency (if such liquidation is possible). As a result, an intellectual property claim against the Fund, an

Underlying Fund or other large digital currency participants could adversely affect an investment in the interests of the Fund or the Underlying Fund.

**Risks of Open-Source Structure.** The open-source structure of many of the digital currency network protocols means that certain core developers and other contributors may not be directly compensated for their contributions in maintaining and developing the network protocol. A failure to properly monitor and upgrade network protocol could damage the digital currency networks. Certain digital currency networks operate based on open-source protocol maintained by the groups of core developers. As these network protocols are not sold and their use does not generate revenues for development teams, core developers may not be directly compensated for maintaining and updating the network protocols. Consequently, developers may lack a financial incentive to maintain or develop the network, and the core developers may lack the resources to adequately address emerging issues with the networks. There can be no guarantee that developer support will continue or be sufficient in the future. Additionally, some development and developers are funded by companies whose interests may be at odds with other participants in the network or with investors' interests. To the extent that material issues arise with certain digital currency network protocols and the core developers and open-source contributors are unable or unwilling to address the issues adequately or in a timely manner, the digital currency networks and an investment in a Fund or an Underlying Fund may be adversely affected.

**Governance Risks.** Lack of clarity in the corporate governance of many digital currencies systems may lead to ineffective decision-making that slows development or prevents a network from overcoming important obstacles. Governance of many digital currency systems is by voluntary consensus and open competition. Bitcoin, for example, has no central decision-making body or clear manner in which participants can come to an agreement other than through overwhelming consensus. The lack of clarity on governance may adversely affect Bitcoin's utility and ability to grow and face challenges, both of which may require solutions and directed effort to overcome problems, especially long-term problems. Recently, a seemingly simple, technical issue has divided the Bitcoin community: namely, whether to increase the block size of the blockchain or implement another change to increase the scalability of Bitcoin, known as "segregated witness," and help it continue to grow. Because the resolution of the scaling issue has taken several years, some have referred to a "governance crisis" at decentralized currencies. To the extent lack of clarity in corporate governance of digital currency systems leads to ineffective decision-making that slows development and growth, the value of the interests may be adversely affected.

*Risks Associated with Engaging or Investing in Mining Activities.* The Fund may invest, directly or indirectly, in entities engaged in cryptocurrency “mining” activities. Mining is the process whereby new cryptocurrency is issued directly to competing miners in return for using their computers’ processing power to help ensure the integrity and security of the underlying system. Mining difficulty (*i.e.*, the amount of processing power required to successfully mine a given cryptocurrency), can increase or decrease over time depending on various factors, such as the number of other miners competing at the same time. Generally, as the computing power on a given cryptocurrency’s network increases, so too does mining difficulty. Accordingly, mining cryptocurrency may require continual investment in computer hardware and cause an increase in energy costs for the miners. Such investment and costs can adversely affect the profitability of engaging or investing in mining activities. Additionally, depending on the cryptocurrency being mined, specialized hardware, such as GPUs or ASICs, may be required to efficiently mine, and new increasingly efficient versions are typically released from time to time. There may be limited producers of, or otherwise limited availability of, such hardware. To the extent that a miner is not able to acquire new versions of specialized hardware, it may not be able to mine as profitably or be at all profitable anymore.

Some forms of mining are not based on the computing power of its miners’ systems, but rather on the amount of cryptocurrency a miner is willing to “stake” in a claim that it is correctly following the mining rules. In such proof-of-stake system (as opposed to the proof-of-work system, used by Bitcoin), miners that stake larger amounts of cryptocurrency win larger rewards. Becoming a profitable miner in a proof-stake-system requires balancing, among other factors, energy costs and the cost of staking large amounts of capital in the form of cryptocurrency.

Cryptocurrencies can switch mining algorithms, which can harm miners’ profitability. For example, the developers of Ethereum are planning a switch to a proof-of-stake system from a proof-of-work system, which may make mining less profitable for some miners. Miners can become targets for cyber-attacks by malicious actors seeking to steal cryptocurrency.

**Risks Related to Insufficient Mining Incentives.** With respect to digital currencies that are developed through mining, if the award of new units of digital currency for solving blocks and transaction fees for recording transactions are not sufficiently high to incentivize miners, miners may cease expending processing power to solve blocks and confirmations of transactions on the blockchain could be slowed temporarily. A reduction in the processing power expended by miners on digital currency networks could increase the likelihood of a malicious actor or botnet obtaining control.



Miners generate revenue from both newly created Bitcoins, known as the “block reward” and from fees taken upon verification of transactions. If the aggregate revenue from transaction fees and the block reward is below a miner’s cost, the miner may cease operations. If the award of new units of digital currencies such as Bitcoin and Ether for solving blocks declines and/or the difficulty of solving blocks increases, and transaction fees voluntarily paid by participants are not sufficiently high, miners may not have an adequate incentive to continue mining and may cease their mining operations. For instance, the current fixed reward for solving a new block on the Bitcoin network is twelve and a half Bitcoins per block, which decreased from twenty-five Bitcoins in July 2016. It is estimated that it will halve again in about four years. This reduction may result in a reduction in the aggregate hashrate of the Bitcoin network as the incentive for miners decreases. Miners ceasing operations would reduce the collective processing power on the network, which would adversely affect the confirmation process for transactions (*i.e.*, temporarily decreasing the speed at which blocks are added to the blockchain until the next scheduled adjustment in difficulty for block solutions) and make digital currency networks more vulnerable to a malicious actor or botnet obtaining control in excess of 50% of the processing power, which would allow such actor or botnet to manipulate the blockchain and hinder transactions. Any reduction in confidence in the confirmation process or processing power of a digital currency network may adversely affect an investment in a Fund or an Underlying Fund.

*Risks of Exclusion of Transactions.* To the extent that any miners exclude some or all transactions, significant increases in fees and widespread delays in the recording of transactions could result in a loss of confidence on the relevant digital currency networks, which could adversely affect an investment in a Fund or an Underlying Fund.

To the extent that any miners solve blocks that exclude some or all transactions that have been transmitted to the network, such transactions will not be recorded on the respective blockchain until another miner solves a block that incorporates those transactions. Some in the digital currency community have suspected that certain technologies, such as ASICBoost, enhance speed and reduce electricity use of mining when reducing the number of transactions that are included in mined blocks on the Bitcoin network. To the extent that more blocks are mined without transactions, transactions will settle more slowly and fees will increase. This could result in a loss of confidence in the digital currency network, including the Bitcoin network and Ethereum network, which could adversely affect an investment.

*Risks of Collusion of Miners.* Miners could act in collusion to raise transaction fees, which may adversely affect the usage of digital currency networks.

Miners, functioning in their transaction confirmation capacity, collect fees for each transaction they confirm. Miners validate unconfirmed transactions by adding the previously unconfirmed transactions to new blocks in the blockchain. Miners are not forced to confirm any specific transaction, but they are economically incentivized to confirm valid transactions as a means of collecting fees. Miners have historically accepted relatively low transaction confirmation fees. If miners collude in an anticompetitive manner to reject low transaction fees, then digital currency users could be forced to pay higher fees, thus reducing the attractiveness of the digital currency network. Mining occurs globally and it may be difficult for authorities to apply antitrust regulations across multiple jurisdictions. Any collusion among miners may adversely affect the attractiveness of digital currency networks and may adversely affect an investment in a Fund or an Underlying Fund or the ability of the Fund or the Underlying Fund to operate.

**Nascent Development of Smart Contracts.** The nascent nature of smart contract development may magnify initial problems, increase volatility and reduce interest in smart contracts, which could have an adverse impact on the value of Ether or other digital currencies. Smart contracts are computer protocols that facilitate the negotiation or performance of a contract and have only very recently been implemented. Since smart contracts typically cannot be stopped or reversed, bugs in their programming can have catastrophic effects. For example, a bug in the smart contracts underlying The DAO, a distributed autonomous organization for venture capital funding, allowed an attack by a hacker who drained \$50 million from its accounts. The theft was reversed only by the developers making a “hard fork” of Ethereum. See “Risk of a Blockchain ‘Fork’” above. Nevertheless, the price of Ether dropped 35% because of the attack and also the fork. In addition, in July 2017, a vulnerability in a smart contract for a multi-signature wallet software provided by Parity led to a \$30 million theft of Ether. Initial problems and continued setbacks with the implementation and development of smart contracts may have an adverse effect on the value of Ether and other digital currencies.

**Risks Related to Demand for Private Blockchains.** Major smart contract development on private blockchains may decrease potential demand for digital currencies powered by public blockchains.

Since 2015, the concept of “consortium blockchains” and “private blockchains” has become increasingly popular. In a consortium blockchain, the consensus process is controlled by a pre-selected set of nodes, for example nodes controlled by a number of financial institutions. The right to read the blockchain may be public or restricted to participants. Fully private blockchains have access permissions that are centralized and tightly

controlled, with rights to modify or even read the blockchain state restricted to a few users, while still maintaining many kinds of partial guarantees of authenticity and decentralization that blockchains provide. Private blockchain systems have been a significant focus of interest from financial institutions.

Private blockchains are being deployed as turnkey solutions directly to businesses by projects like Deloitte's Rubix and Eris Industries and AlphaPoint's Streamcore. Other consortium projects like R3 are also receiving an enormous amount of attention and interest, potentially at the expense of the public blockchain market. To the extent major smart contract development by institutions occurs on private blockchains instead of public blockchains, this may have an adverse effect on the potential demand for and price of Ether or other digital currencies that power smart contracts on public blockchains.

**Limited History of Digital Currencies.** Due to the limited history of digital currencies and the rapidly evolving nature of the digital currency market, it is not possible to know all the risks involved in making an investment in digital currency, and new risks may emerge at any time. Digital currencies have gained commercial acceptance only within the past decade and, as a result, there is little data on their long-term investment potential. Additionally, due to the rapidly evolving nature of the digital currency market, including the development of new digital currencies and advancements in the underlying technology, it is not possible to predict which digital currencies a Fund or an Underlying Fund may own in the future or even to fully describe those potential digital currencies. New digital currencies or changes to existing digital currencies may expose Fund investors to additional risks which are impossible to predict as of the date of this brochure. This uncertainty makes an investment in the Funds and Underlying Funds very risky.

### **Risks Related to the Exchange Markets and Service Ecosystems for Digital Currencies**

**New and Unregulated Digital Currency Exchanges.** The digital currency exchanges on which digital currencies trade are relatively new and, in many cases, largely unregulated and, therefore, may be more exposed to fraud and failure than established, regulated exchanges for other assets. Any fraud, security failure or operational problems experienced by the digital currency exchanges could result in a reduction in the value of the digital currency and adversely affect an investment in the Funds. Many such exchanges do not provide the public with significant information regarding their ownership structure, management teams, corporate practices or regulatory compliance. As a result, the marketplace may lose confidence in, or may experience problems relating to, digital currency exchanges, including prominent exchanges handling a significant portion of the volume of trading. Digital currency exchanges may impose daily, weekly, monthly or customer-specific transaction or distribution limits or suspend withdrawals entirely,

rendering the exchange of digital currency for fiat currency difficult or impossible. The participation in digital currency exchanges requires users to take on credit risk by transferring digital currency from a personal account to a third party's account.

Over the past several years, a number of digital currency exchanges have been closed due to fraud, failure or security breaches. In many of these instances, the customers of such digital currency exchanges were not compensated or made whole for the partial or complete losses of their account balances in such digital currency exchanges. While smaller digital currency exchanges are less likely to have the infrastructure and capitalization that make larger digital currency exchanges more stable, larger digital currency exchanges are more likely to be appealing targets for hackers and “malware” (*i.e.*, software used or programmed by attackers to disrupt computer operation, gather sensitive information or gain access to private computer systems). In 2014, the largest Bitcoin exchange at the time, Mt. Gox, filed for bankruptcy in Japan amid reports the exchange lost up to 850,000 Bitcoins, valued then at over \$450 million.

Digital currency exchanges that are regulated typically must comply with minimum net worth, cybersecurity, and anti-money laundering requirements, but are not typically required to protect customers or their markets to the same extent that regulated securities exchanges or futures exchanges are required to do so. For example, U.S. state and federal regulatory regimes for digital currency exchanges have no specific requirements that exchanges detect, report or prevent manipulative trading activity, such as spoofing.

A lack of stability in digital currency exchanges, manipulation of digital currency markets by digital currency exchange customers and the closure or temporary shutdown of such exchanges due to fraud, business failure, hackers or malware, or government-mandated regulation may reduce confidence in the digital currencies generally and result in greater volatility in the market price of digital currencies. These potential consequences of an exchange's failure or failure to prevent market manipulation could adversely affect an investment in the Funds or the Underlying Funds.

**Transaction Fees.** Digital currency exchanges, wallet providers and other custodians and security vendors of digital assets may charge transaction fees that are higher relative to fees charged by custodians in many other financial markets. These relatively higher fees may be due to, among other factors, the significant scaling obstacles and security challenges that digital currencies, wallets and digital asset intermediaries face. Such high transaction fees could adversely affect the profitability of a Fund or Underlying Fund's investments and therefore the value of the interests in such fund. In addition, continued or increased high transaction fees could reduce the demand for and the price of digital currencies, which could adversely affect an investment in a Fund or an Underlying Fund.

**Digital Currency Derivatives Markets.** Regulated derivatives markets for digital currencies in the United States are developing as registered futures exchanges and swap execution facilitates, which are regulated by the CFTC, and are beginning to offer futures, options, and swaps on Bitcoin. Several CFTC-registered swap execution facilitates offer trading in digital currency swaps and both the CBOE and CME, which are registered futures exchanges do, or plan to, offer futures and options on digital currencies. There is, however, no assurance that any particular digital currency derivatives producers will be brought to market, that derivatives products will be created for digital currencies other than Bitcoin, or that trading in products that are offered will be liquid or at beneficial prices to the Funds or Underlying Funds. Additionally, digital currency “forks” or other similar events may pose significant challenges for derivatives exchanges or other markets to address. See “Risk of a Blockchain ‘Fork,’” above.

The existence of regulated markets that offer trading in digital currency derivatives, the volume of transactions on those markets and the nature and sophistication of participants may impact a Fund’s or an Underlying Fund’s ability to take advantage of opportunities in the derivatives markets.

Markets in digital currency derivatives could also affect prices, liquidity, and other aspects of digital currency cash markets and other related markets. Digital currency derivatives markets could facilitate larger volumes of short positions in digital currencies than what may be possible in cash market trading only. Thus, trading in digital currency derivatives could be used by market participants to accumulate short positions in Bitcoin and other digital currencies, which could reduce the price of these digital currencies. This type of trading activity could negatively impact a Fund’s or an Underlying Fund’s investments. In addition, the existence of futures exchanges offering digital currency futures and options could increase the chance that an exchange-traded product that tracks the price of a digital currency is approved by the SEC.

**Competition from Other Methods of Digital Currency Investing.** An investment in the Funds or Underlying Funds may be adversely affected by competition from other methods of investing in digital currencies, which could result in investor withdrawals and adversely affect an investment in the interests. The Funds and the Underlying Funds will compete with other potential financial vehicles. Such competitors may invest in digital currencies, including through securities backed by or linked to digital currency exchange-traded products, or ETPs. Other competitors may invest in derivative financial products, which utilize digital currencies as the underlying asset. Market and financial conditions, and other conditions beyond the Fund’s and the Underlying Funds’ control, may make it more

attractive for investors to withdraw interests in the Fund or the Underlying Funds in order to invest in other such financial vehicles. Furthermore, more attractive investment products not currently on the market could develop, which may also lead to investors withdrawing interests in the Fund or the Underlying Funds. Any such withdrawals may negatively affect the value of the interests in the Fund and the Underlying Funds.

Prices for digital currencies may be affected by the sale of other digital currency financial vehicles that invest in and track the price of digital currencies. To the extent digital currency financial vehicles other than the Funds and the Underlying Funds tracking the price of digital currencies are formed and represent a significant proportion of the demand for digital currencies, large redemptions of the securities of these digital currency financial vehicles, or private funds holding digital currencies, could negatively affect prices, the Funds' and the Underlying Funds' holding of digital currencies and the value of the interests.

**Risks of Failure of Other Funds to Receive Listing Approval.** Failure of funds that hold digital currencies, or that have exposure to digital currencies through derivatives, to receive SEC approval to list their shares on exchanges could adversely affect an investment in a Fund. Although the interests in the Funds will not be listed for trading on any securities exchange, there have been a growing number of attempts to list on national securities exchanges the shares of funds that hold digital currencies or that have exposures to digital currencies through derivatives. These investment vehicles attempt to provide institutional and retail investors exposure to digital currency markets. Many such funds have had their requests to list funds rejected, including the Winklevoss Bitcoin Trust and SolidX Bitcoin Trust, while many other such funds have withdrawn similar requests, including the Bitcoin Investment Trust, the EtherIndex Ether Trust, and the REX Bitcoin Strategy ETF, among others. The SEC agreed to review its decision on the Winklevoss Bitcoin Trust subsequent to the submission of an appeal, and its review is currently pending. Exchange-listed digital currency fund shares would create more opportunities for institutional and retail investors to invest in the digital currency market. If exchange-listing requests are not approved by the SEC and the outstanding requests are ultimately denied by the SEC, increased investment interest by institutional or retail investors could fail to materialize, which could reduce the demand for digital currencies generally and therefore adversely affect an investment in the interests in a Fund or an Underlying Fund.

**Risks of Political or Economic Crises.** Political or economic crises may motivate large-scale sales of digital currencies, which could result in a reduction price of digital currency assets and adversely affect an investment in a Fund or an Underlying Fund. As an alternative to fiat currencies that are backed by central governments, digital currencies, which are relatively new, are subject to supply and demand forces based upon the

desirability of an alternative, decentralized means of buying and selling goods and services, and it is unclear how such supply and demand will be affected by geopolitical events. Nevertheless, political or economic crises may motivate large-scale acquisitions or sales of such digital currency assets either globally or locally. Large-scale sales of digital currencies would result in a reduction in the price and adversely affect an investment.

**Risks Relating to Availability of Banking Services.** Banks may not provide banking services, or may cut off banking services, to businesses that provide digital currency-related services or that accept digital currency as payment, which could damage the public perception of digital currency and the utility of digital currency as a payment system and could decrease the price of digital currency and adversely affect an investment in a Fund or an Underlying Fund.

A number of companies that provide digital currency-related services have been unable to find banks that are willing to provide them with bank accounts and banking services. Similarly, a number of such companies have had their existing bank accounts closed by their banks. Banks may refuse to provide bank accounts and other banking services to digital currency-related companies or companies that accept digital currency for a number of reasons, such as perceived compliance risks or costs. The difficulty that many businesses that provide digital currency-related services have and may continue to have in finding banks willing to provide them with bank accounts and other banking services may be currently decreasing the usefulness of digital currency as a payment system and harming public perception of digital currency or could decrease its usefulness and harm its public perception in the future. Similarly, the usefulness of digital currency as a payment system and the public perception of digital currency could be damaged if banks were to close the accounts of many or of a few key businesses providing digital currency-related services. This could decrease the value of the digital currencies held by a Fund or an Underlying Fund and therefore adversely affect an investment in the Fund or an Underlying Fund.

### **Risks Related to Regulation of Digital Currency**

Regulatory changes or actions may alter the nature of an investment in a Fund or an Underlying Fund or restrict the use of digital currencies or the operation of digital currency networks or exchanges in a manner that adversely affects an investment in a Fund or an Underlying Fund.

While regulation of digital currency is still nascent, as Bitcoin and other digital currencies have grown in both popularity and market size, the U.S. Congress and a number of U.S. federal and state agencies have been examining digital currency networks and exchange markets. Many of these state and federal agencies have issued consumer advisories

regarding the risks posed by Bitcoin and other digital currencies to investors. In addition, U.S. federal and state agencies, and regulatory bodies in other countries have issued rules or guidance about the treatment of digital currency transactions or requirements for businesses engaged in digital currency activity. On-going and future regulatory actions may alter, perhaps to a materially adverse extent, the nature of an investment in a Fund or the ability of a Fund or an Underlying Fund to continue to operate.

In 2013 guidance, the Financial Crimes Enforcement Network (“FinCEN”) took the position that any administrator or exchanger of convertible digital currencies must register with FinCEN as a money transmitter and must comply with the anti-money laundering regulations applicable to money transmitters. In 2015, FinCEN assessed a \$700,000 fine against Ripple Labs for violating several requirements of the Bank Secrecy Act by acting as a money services business, also known as an MSB, and selling XRP without registering with FinCEN, and by failing to implement and maintain an adequate anti-money laundering program. In 2017, FinCEN assessed a \$110 million fine against BTC-E, a now defunct digital currency, for similar violations. The requirement that exchangers that do business in the United States register with FinCEN and comply with anti-money laundering regulations may increase the cost of buying and selling digital currencies and therefore may adversely affect their price.

In 2015, the New York State Department of Financial Services (the “NYDFS”) finalized a rule that requires most businesses involved in digital currency business activity for third parties in or involving New York, excluding merchants and consumers, to apply for a license, commonly known as a BitLicense, from the NYDFS and to comply with anti-money laundering, cyber security, consumer protection, and financial and reporting requirements, among others. As an alternative to the BitLicense in New York, firms can apply for a charter to become limited purpose trust companies qualified to engage in digital currency business activity. Other states have considered regimes similar to the BitLicense, and have passed statutes, regulations or guidance indicating that certain digital currency business activities constitute money transaction requiring licensure. The inconsistency in applying money transmitting licensure requirements to certain businesses may make it more difficult for these businesses to provide services, which may affect consumer adoption of digital currencies and their price. In an attempt to address these issues, the Uniform Law Commission passed a model law in July 2017, the Uniform Regulation of Virtual Currency Businesses Act, which has many similarities to the BitLicense and features a multistate reciprocity licensure feature, wherein a business licensed in one state could apply for accelerated licensure procedures in other states. It is still unclear, however, how many states, if any, will adopt some or all of the model legislation.



The SEC and CFTC have also taken various actions to clarify their treatment of digital currencies, including tokens, or businesses involved in certain types of digital-currency business. The SEC has indicated that certain tokens, particularly those issued in ICOs, may constitute securities, and that certain ICOs may be illegal, unregistered securities offerings. The CFTC has stated that Bitcoin and other virtual currencies are “commodities” under the Commodity Exchange Act, and has taken various actions relating to its jurisdiction over commodity derivatives. For example, the CFTC sanctioned a Hong Kong-based Bitcoin exchange, Bitfinex, in June 2016 for offering illegal off-exchange financed retail commodity transactions in Bitcoin and other cryptocurrencies. Allegedly, Bitfinex permitted users to borrow funds from other users in order to trade Bitcoins on a leveraged basis but did not actually deliver those Bitcoins to the traders and instead held them in deposit wallets that it owned and controlled. In addition, in September 2017, the CFTC initiated an enforcement action against an alleged Ponzi scheme that took investments in Bitcoin and purported to use an algorithmic trading strategy but in reality had no such strategy. This action illustrates the CFTC's anti-fraud and anti-manipulation powers in the spot market. Similarly, many countries outside the United States have enacted regulatory regimes or taken enforcement actions with respect to digital currencies. Ongoing and future regulatory actions may alter, perhaps to a materially adverse extent, the nature of an investment in a Fund or an Underlying Fund or the ability of the Fund or the Underlying Fund to continue to operate.

Regulatory limitations on ICOs may negatively affect ecosystems like Ethereum on which most ICOs occur. Many blockchain startups use Ethereum to launch their ICOs. Additionally, such ICOs often accept Bitcoins or Ether as payment for coins, bolstering demand for Bitcoin and Ether. The SEC's action with respect to The DAO could have a chilling effect on future ICOs. While the SEC has not taken enforcement action against The DAO or against ICOs, as noted above, the SEC published a bulletin warning investors about such ICOs. If the SEC clarifies or if market participants conclude that many ICOs violate federal or state securities, money transmitter, or digital currency business activity laws, the number of ICOs may decrease and coins already issued as part of ICOs may face uncertain regulatory futures. In addition, a number of foreign jurisdictions have, like the SEC, recently opined on the sale of digital currency tokens including through ICOs. China and South Korea have banned ICOs entirely and other jurisdictions have opined that ICOs may constitute securities offerings subject to local securities regulations, which could similarly affect the number of ICOs and coins already issued as part of ICOs. These developments may decrease demand for Ether, Bitcoin, or other smart contract tokens, and could negatively affect the digital currency ecosystem, which could adversely affect the performance of a Fund or an Underlying Funds and could adversely affect the value of an investment in a Fund or an Underlying Fund.

**Risks Associated with Investing in ICOs and SAFTs.** Certain ICO or token sale transactions may constitute the offer and sale of securities under the U.S. federal securities laws. There is significant uncertainty regarding which tokens sold in ICOs or token sales may be securities. To the extent that ICOs or token sales are conducted in violation of the U.S. federal securities laws, the tokens purchased may be worthless, may be difficult or impossible to sell, and may subject the purchaser to potential liability if the purchaser resells the tokens in violation of the requirements of the U.S. federal securities laws.

The ability of investors in ICOs or token sales to recover in the event of fraud or theft may be limited. A significant portion of funds meant to be invested in funds have been stolen by hackers. For example, in July 2017, CoinDash announced that its ICO had been hacked, resulting in a loss of over \$7 million. The ICO was structured as a sale of tokens to be purchased in Ether, with detailed instructions provided on CoinDash’s website. However, when an unidentified hacker maliciously replaced the Ethereum wallet address listed on CoinDash’s website with a fraudulent address, all contributions made to such address were stolen. CoinDash has stated that it plans to reimburse investors who were defrauded and has set up a claims process; however, it is unclear what amount has been reimbursed to date, if any. While investors who have been defrauded have rights under various laws, including potentially the U.S. federal securities laws or the Commodity Exchange Act, their ability to recover may be significantly limited due to one or more of the following factors:

1. *Tracing money.* Traditional financial institutions often are not involved with ICOs or digital currency transactions, making it more difficult to follow the flow of money.
2. *International scope.* ICOs and digital currency transactions and users span the globe. Regulatory and law enforcement agencies may be unable to quickly obtain information from persons or entities located overseas.
3. *Freezing or securing digital currency.* Law enforcement officials may have difficulty freezing or securing investor funds that are held in a digital currency. Digital currency wallets are encrypted and unlike money held in a bank or brokerage account, digital currencies may not be held by a third-party custodian.

The simple agreement for future tokens (“SAFT”) is a newly developed instrument designed to convey rights in digital tokens prior to the development of the tokens’ functionality. Under a SAFT, the SAFT instrument itself is designed to be treated as a security, and thus its offering is subject to U.S. federal or other securities laws, but the token to be delivered under the SAFT would be designed not to be a security for purposes of U.S. federal securities laws or commodity derivatives subject to regulation under the Commodity Exchange Act. The market for such instruments is not well developed and the regulatory treatment of SAFTs is unclear. U.S. regulators, including the SEC and CFTC, have not issued guidance or otherwise indicated whether they believe SAFTs or the underlying

tokens would be subject to regulation as securities or commodity derivatives. There is a risk that SAFTs, because they provide for forward delivery of a token that is designed to be a commodity, could be viewed by the CFTC as swaps and subject to regulation as such. The tokens delivered under a SAFT could be viewed by the SEC as securities or by the CFTC as commodity derivatives, depending on the nature of the tokens and the manner of their offering. Guidance or other action taken by regulators could significantly affect the regulatory treatment of SAFTs and tokens delivered under SAFTs. Such action, or legal action brought by market participants against issuers of SAFTs or the underlying tokens, could negatively affect the value or liquidity of any SAFTs or tokens held by a Fund or an Underlying Fund and could negatively affect the ability of the Fund or Underlying Fund to use these instruments as part of its investment strategy.

In addition, a Fund or an Underlying Fund could face investigations, expensive remedial actions, and penalties and fines, and could be restricted from selling or effecting any transactions involving SAFTs or tokens received from SAFTs, and the SAFTs or tokens could be worthless. A Fund or an Underlying Fund may decline to invest in SAFTs or tokens issued through SAFTs, given the regulatory uncertainty in their treatment and the potential consequences. All of these occurrences could have an adverse effect on such fund and the investors.

**Future Legislation and Regulation Worldwide Relating to Digital Currencies.** It may be or become illegal to acquire, own, hold, sell or use digital currencies in one or more countries, and ownership of, holding or transfer of the interests in the Fund or Underlying Funds may be considered illegal and subject to sanction in those countries. Digital currencies currently face an uncertain regulatory landscape in many foreign jurisdictions such as the European Union (“EU”), China, the United Kingdom, Australia, Japan, Russia, Israel, Poland, India, Hong Kong, Canada and Singapore. Most regulatory bodies have not yet issued official statements regarding determinations on regulation of digital currencies, user or networks. Since October 2015 in the EU, Bitcoin transactions have been treated as traditional currency transactions and have not been subject to value added tax. In Russia, regulators announced plans to recognize Bitcoin and other digital currencies as legitimate financial instruments by 2018, but announced in September 2017 that they would not yet allow digital currencies to be traded on official exchanges or to be used in clearing and settlement infrastructure. In China, government notice classified Bitcoins as “virtual commodities,” and not legal tender in 2013, and in 2017, the largest China-based Bitcoin exchanges introduced a 0.2% fixed rate transaction fee for all Bitcoin buy and sell orders. There are reports that Chinese regulators have taken action to shut down China-based digital currency exchanges, and a number of digital currency exchanges have announced that they will be closing. There remains significant uncertainty regarding the Chinese

government's future actions with respect to the regulation of digital currency and digital currency exchanges, and the Adviser believes that this uncertainty has had and will continue to have an adverse effect on the price of digital currencies and therefore the value of an investment in the Fund and any Underlying Funds. In April 2017, Japanese regulators recognized digital currencies as a legal method of payment and required market participants to meet certain compliance requirements and be subject to oversight by the Financial Services Agency. Israel applied capital gains tax to sales of Bitcoins and other digital currencies in 2017. Ecuador, Bolivia, and Bangladesh, on the other hand, have banned the use of Bitcoins and other digital currencies.

Various foreign jurisdictions may, in the near future, adopt laws, regulations or directives that affect the digital currencies. Such laws, regulations or directives may conflict with those of the United States and may negatively affect the acceptance of digital currencies by users, merchants and service providers outside the United States and may therefore impede the growth or sustainability of the digital currency economy in these jurisdictions as well as in the United States and elsewhere, or otherwise negatively affect the value of digital currencies.

Additionally, U.S. state and federal, and foreign regulators and legislatures have taken action against digital currency businesses or enacted restrictive regimes in response to adverse publicity arising from hacks, consumer harm, or criminal activity stemming from digital currency activity. It has been reported, for instance, that South Korean digital currency exchanges have been subject to cybersecurity attacks by North Korean state actors with the intent of stealing digital currencies, possibly with the intention of evading international economic sanctions. Cybersecurity attacks by state actors, particularly for the purpose of evading international economic sanctions, are likely to attract additional regulatory scrutiny to the acquisition, ownership, sale and use of digital currencies. The value of digital currencies could thus be affected by such adverse publicity.

**Trading on Non-U.S. Digital Currency Exchanges.** Trading on digital currency exchanges outside the United States may not be subject to U.S. regulation, and may be less reliable than trading on U.S. exchanges. Because of the lack of regulation, such non-U.S. exchanges may have a greater potential for manipulation which could adversely affect the value of the interest in a Fund or an Underlying Fund. In addition, trading on such exchanges may involve certain risks not applicable to trading on U.S. exchanges. For instance certain foreign markets may be more susceptible to disruption than U.S. exchanges. These factors could adversely affect the performance of the Funds or the Underlying Funds. Any potential manipulation of digital currency exchanges may affect the value of the interests in a Fund or an Underlying Fund. Such manipulation may take various forms, including malicious actors successfully double spending digital currencies or employing other

fraudulent schemes with a greater success rates than they would otherwise achieve on a U.S.-regulated exchange.

**Risk of Loss, Theft or Restriction on Access of Digital Currencies.** There is a risk that some or all of a Fund's or an Underlying Fund's digital currencies could be lost, stolen, destroyed or inaccessible, potentially by the loss or theft of the private keys held by custodians associated with the public addresses that hold the Fund's or Underlying Fund's digital currencies. Access to a Fund's or an Underlying Fund's digital currencies could be restricted by natural events (such as an earthquake or flood) or human actions (such as a terrorist attack). The Funds' and the Underlying Funds' digital currencies held in custody accounts will likely be an appealing target to hackers or malware distributors seeking to destroy, damage or steal the Funds' or Underlying Fund' digital currencies or private keys. Security breaches, cyber-attacks, computer malware and computer hacking attacks have been a prevalent concern for digital currency exchanges. Any cyber security breach caused by hacking, which involves efforts to gain unauthorized access to information or systems, or to cause intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment, and the inadvertent transmission of computer viruses, could harm a Fund's or an Underlying Fund's business operations or reputation, resulting in loss of the fund's assets. Digital currency exchanges may in particular be at risk of cyber security breaches orchestrated or funded by state actors. It has been reported, for instance, that South Korean digital currency exchanges have been subject to cybersecurity attacks by North Korean state actors with the intent of stealing digital currencies, possibly with the intention of evading international economic sanctions. Any problems relating to the performance and effectiveness of security procedures used by a Fund or an Underlying Funds and their respective custodians to protect the funds' assets, such as algorithms, codes, passwords, multiple signature systems, encryption and telephone call-backs may have an adverse impact on an investment in such Fund or Underlying Funds. Furthermore, the Adviser believes that, as a Fund's or an Underlying Fund's assets grow, it, along with its custodians, may become a more appealing target for cyber security threats such as hackers and malware. Furthermore, cybersecurity attacks orchestrated or funded by state actors may be particularly difficult to defend against because of the resources that state actors have at their disposal.

No storage system is impenetrable, and storage systems employed by a Fund, an Underlying Fund or their respective custodians may not be free from defect or immune to acts of God. Any loss due to a security breach, software defect or act of God generally will be borne by such Fund or Underlying Fund, as the case may be.

Such storage systems and operational infrastructure may be breached due to the actions of outside parties, error or insider malfeasance of an employee of the Adviser or its custodians, or otherwise, and, as a result, an unauthorized party may obtain access to the Adviser's, a Fund's, or the Fund's custodians' or security vendors' storage systems, private keys, data or digital currencies. Additionally, outside parties may attempt to fraudulently induce employees of the custodians or the Adviser to disclose sensitive information in order to gain access to a Fund's infrastructure. The Adviser, its custodians or any technological consultant engaged by them will periodically examine and propose modifications to storage systems, protocols and internal controls to address the use of new devices and technologies to safeguard the Fund's systems and digital currencies. As the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently, or may be designed to remain dormant until a predetermined event and often are not recognized until launched against a target, the Adviser may be unable to anticipate these techniques or implement adequate preventative measures. If an actual or perceived breach of a storage system occurs, a loss of confidence in digital currency networks may decrease the market price of the Fund's investments. An actual or perceived breach may also cause investors to seek to withdraw interests, which may harm the Fund's investment performances. In the event of an actual or perceived security breach of a storage system, the Fund may cease operations.

If a Fund's or an Underlying Funds' digital currencies are lost, stolen or destroyed under circumstances rendering a party liable to the Fund or the Underlying Fund, the responsible party may not have the financial resources sufficient to satisfy the fund's claim. For example, as to a particular event of loss, the only source of recovery for a Fund or an Underlying Fund may be limited to the relevant custodian or, to the extent identifiable, other responsible third parties (for example, a thief or terrorist), any of which may not have the financial resources (including liability insurance coverage) to satisfy a valid claim of the Fund or the Underlying Fund.

It may not be possible, either because of a lack of available policies or because of prohibitive cost, for a Fund or an Underlying Fund to obtain insurance that would cover losses associated with certain digital currency assets. If an uninsured loss occurs or a loss exceeds policy limits, the Fund or the Underlying Fund could lose all of its assets.

**Risks Related to Security Protocols.** A Fund could experience unforeseen difficulties in operating and maintaining security procedures or other key elements of technical infrastructure. Security protocols have been designed specifically to provide security for the Fund's assets and may be expanded, updated and altered from time to time. Any effort to expand, update or alter the security system is likely to be complex, and unanticipated

delays in the completion of these projects may lead to unanticipated project costs, operational inefficiencies or vulnerabilities to security breaches. In addition, there may be problems with the design or implementation of certain security protocols or with an expansion or upgrade thereto that are not evident during the testing phases of design and implementation, and that may only become apparent after the Fund has utilized the infrastructure. Any issues relating to the performance and effectiveness of the security procedures used by the Fund, its custodians and security vendors to protect its digital currency assets, such as algorithms, codes, passwords, multiple signature systems, encryption and telephone call-backs, may have an adverse impact on an investment.

The security procedures implemented by the Adviser, the Fund and its custodians and security vendors are technical and complex, and the Fund depends on these security procedures to protect the storage, acceptance and distribution of data relating to digital currency assets and the digital wallets into which the Fund deposits its digital currencies. These security procedures may not protect against all errors, software flaws or vulnerabilities. Defects in the security procedures may only be discovered after a failure in the custodians' and security vendors' safekeeping and storage of the Fund's digital currency assets. Such custody and security systems may be implemented by the Adviser directly as well as by third party custody providers.

It is not uncommon for businesses in the digital currency space to experience large losses due to fraud and breaches of their security systems. For example, in September 2015, the global Bitcoin payment agent, BitPay, lost approximately \$1.8 million of Bitcoins due to a hacker's fraudulent impersonation of BitPay's Chief Financial Officer, or CFO, whereby the hacker was able to access the CFO's email account and successfully request BitPay's custodian to transfer funds.

Furthermore, a Fund's private keys required to transfer the Fund's digital currency assets could be stored on systems or vaults located across the world, depending on the practices and procedures of the Fund's custodians or security vendors, which could be subject to (i) hostile regulatory treatment of digital currencies, (ii) unforeseen social, economic or political unrest and (iii) natural or man-made disaster.

The Funds, the Adviser, the custodians, the security vendors and each of their agents will take measures to protect the Funds and their digital currency assets from unauthorized access, damage or theft. However, it is possible that the security procedures in place may not prevent the improper access to, or damage or theft of the Funds' digital currencies. A security breach could harm a Fund's reputation or result in the loss of some or all of the Fund's digital currency assets. A resulting perception that the security procedures do not

adequately protect the Fund's digital currency assets may have an adverse impact on an investment in the Fund.

**Changing Security Needs.** The Funds' and Underlying Funds' custodians' and security vendors' ability to adopt technology in response to changing security needs or trends poses a challenge to the safekeeping of the Fund's and the Underlying Funds' digital currency assets. Digital currency exchanges and large holders of digital currencies must adapt to technological change in order to secure and safeguard client accounts. The ability of the custodians and security vendors that are or will be employed by a Fund or an Underlying Fund (including, potentially, the Fund or the Underlying Fund itself, the Adviser, or affiliates of the Adviser) to safeguard the digital currencies that the Fund or Underlying Fund holds from theft, loss, destruction or other issues relating to hackers and technological attack, is based upon known technology and threats. As technological change occurs, the security threats to the custodial digital currency assets will likely adapt and previously unknown threats may emerge. Furthermore, the Adviser believes that the Funds and the Underlying Funds may become a more appealing target of security threats as the size of a Fund's or Underlying Funds' assets grows. If a custodian or security vendor is unable to identify and mitigate or stop new security threats, the custodial digital currency assets may be subject to theft, loss, destruction or other attack, which could have a negative impact on the performance of the Fund or Underlying Fund or result in loss of the Fund's or the Underlying Fund's assets.

**Trade Execution Risk.** A Fund's investment and trading strategies depend on its ability to establish and maintain an overall market position in a combination of financial instruments selected by the Adviser. A Fund's trading orders may not be executed in a timely and efficient manner due to various circumstances, including, without limitation, trading volume surges or systems failures attributable to the Fund, the Adviser, the Fund's counterparties, brokers, dealers, agents, or other market participants. In such event, the Fund might only be able to acquire or dispose of some, but not all, of the components of such position, or if the overall position were to need adjustment, the Fund might not be able to make such adjustment. As a result, the Fund would not be able to achieve the market position selected by the Adviser, which may result in a loss.

### **Fund-of-Funds Investment Risks**

**A Fund-of-Funds Does Not Participate in the Management of Underlying Funds.** A Fund that is a fund-of-funds will generally have no or limited rights and ability to participate in the management or control of the business of any Underlying Fund and thus must rely substantially upon the ability of the Underlying Fund managers with respect thereto and with respect to making and monitoring investments. There is no guarantee



that the Underlying Fund managers will act in accordance with any disclosure documents or descriptive materials given by them to the Fund. In addition, such Fund will generally not have an opportunity to evaluate the specific investments made by any Underlying Fund manager or the terms of such investments.

**Payment of Performance Fees and Allocations to Underlying Fund Managers.** An Underlying Fund manager will receive any performance-based fees and allocations to which it is entitled, irrespective of the performance of the other Underlying Fund investments or the Fund as a whole. An Underlying Fund manager with positive performance may receive a performance-based fee or allocation indirectly from the Fund and the investors, even if the Adviser would not be eligible to receive an incentive allocation due to application of the high water mark.

**Lack of Coordination Among Investments.** No assurance can be given that the collective performance of the investments will result in profitable returns for a Fund that is a fund-of-funds. The good performance achieved by one or more investments may be neutralized by the poor performance experienced by other investments. The Fund and the Underlying Funds will invest independently of one another and may at times hold economically offsetting positions. Consequently, at any particular time, the Fund or an Underlying Fund may be purchasing investments that, at the same time, are being sold by another Underlying Fund or by the Fund. Investing in this manner could cause the Fund to incur directly or indirectly certain transaction costs without accomplishing any net investment result. Alternatively, the Fund and the Underlying Funds may employ similar strategies or invest in some of the same assets, resulting in less diversification to the Fund than is desired.

**Reliance on Third-Party Fund Management.** A Fund that is a fund-of-funds intends to invest in Underlying Funds managed by Underlying Fund managers who are unrelated to the Adviser and its affiliates and, directly or indirectly, in investments selected by such unrelated Underlying Fund managers. The success of the Fund depends upon the ability of the Underlying Fund managers to develop and implement strategies that achieve the Fund's investment objective. Although the Adviser will attempt to evaluate each Underlying Fund based on criteria such as its investment strategy and past performance as well as past performance of its Underlying Fund manager with respect to other investment products, past performance may not be a reliable indicator of future results. Underlying Fund managers may not be registered as investment advisers with the SEC, making it more difficult for the Adviser to scrutinize such Underlying Fund managers' credentials. None of the Adviser, the General Partner or directors, as the case may be, or their affiliates will have an active role in the day-to-day management of the Underlying Funds in which the Fund

invests (with the exception of the Fund's investment in the Passport Digital Currency Fund). Moreover, the Adviser will generally not have the opportunity to evaluate the specific investments made by any unaffiliated Underlying Fund manager before they are made, and may not be able to dispose of an investment in an Underlying Fund if the Adviser is dissatisfied with such Underlying Fund's performance. Accordingly, the returns of the Fund will depend on and could be substantially adversely affected by the performance of such unrelated Underlying Fund managers.

**Limited Liquidity.** A fund-of-funds Fund generally may not sell, transfer, exchange, assign, pledge, hypothecate or otherwise dispose of its interest (or any portion thereof) in an Underlying Fund without the consent of the applicable general partner or manager. In addition, certain of the Underlying Fund may have "lock-up" periods, side pockets or other limits on liquidity where the ability of the Fund to make withdrawals from such Underlying Funds will be restricted. It is possible that the Fund will not return any of an investor's capital, and prospective investors should not subscribe unless they can readily bear the consequences of such a loss.

**Temporary Investments.** A fund-of-funds Fund may make additional investments in, or withdrawals from, the Underlying Funds only at certain times specified in the governing documents of such Underlying Funds. From time to time, the Fund may have to invest some of its assets temporarily in fixed income securities and money market instruments or may hold cash or cash equivalents, pending the investment of assets in other investments.

**Non-Disclosure of Other Arrangements.** One or more Underlying Fund Managers may, without notice to a fund-of-funds Fund, enter into agreements with certain investors granting them, among other things, greater portfolio transparency, fee waivers or reductions, different minimum investment amounts, shares having different voting rights or restrictions, additional rights to reports and other information and other more favorable investment terms, including withdrawal rights, than the terms associated with the Fund's investment. Such Underlying Fund manager may have no obligation to offer such additional rights, terms or conditions to its other investors, including the Fund. The Adviser may in its discretion cause the Fund to seek "most favored nation" protection in order to obtain the same rights given to another investor if those rights are more favorable than those originally obtained by the Fund. However, there can be no assurance that the Fund will obtain such protection with respect to any Underlying Fund.

**Access to Information from Underlying Fund Managers.** The Adviser intends to request information from each Underlying Fund manager regarding such Underlying Fund manager's performance and investment strategy. However, the Adviser may not always receive such information because certain of this information may be considered proprietary by the Underlying Fund manager. An Underlying Fund manager's use of proprietary investment strategies that are not fully disclosed to the Adviser may involve

risks under some market conditions that are not anticipated by the Adviser. Furthermore, this lack of access to information may make it more difficult for the Adviser to select, allocate among and evaluate Underlying Fund managers or successfully diversify or hedge the Fund's portfolio.

**Valuation as Basis for Management Fee.** In the case of illiquid investments, reliable market price information may be particularly difficult to obtain. Nevertheless, for purposes of determining the management fee payable by a Fund that is a fund-of-funds, such investments will be revalued from time to time, even though such restated value may not reflect the amount that the Fund is ultimately able to realize. In such case, the management fee would be higher than it would have been if the investment had been assigned a lower valuation.

**Litigation and Claims.** A Fund, the Adviser, and its affiliates as independent legal entities, may be subject to lawsuits or proceedings by government entities or private parties. Except in certain limited circumstances, expenses or liabilities of a Fund arising from any suit will be borne by such entities.

**Expenses May Be a High Percentage of Assets.** Operating expenses that are necessary for the proper operation of a Fund that is a fund-of-funds may be a high percentage of the Fund's net asset value and, even if the Fund's strategy is successful, the Fund may still not be profitable. For example, it is possible that the Fund may have investment gains while the Fund's net asset value may not increase or may even decrease due to fees and expenses, which could have the effect of increasing the Fund's expense ratio.

*Uncertain U.S. Federal Income Tax Treatment.* Due to the new and evolving nature of digital currencies and a general absence of clearly controlling authority with respect to digital currencies, many significant aspects of the U.S. federal income tax treatment of digital currencies (including with respect to the amount, timing and character of income recognition) are uncertain. The proper treatment for U.S. federal income tax purposes of swaps and certain other derivative financial instruments referencing digital currency is also not clear. There can be no assurance that the Internal Revenue Service (the "IRS") will agree with the positions taken by a Fund, any Underlying Fund or any Fund investment vehicle, and it is possible that the IRS will successfully challenge any of these positions. Moreover, it is possible that, with respect to certain issues, a Fund will take positions with respect to its direct investments that are different from the positions taken by one or more Underlying Funds that are not managed by the Fund or any of its affiliates. In that case, the differing positions could increase the risk of an IRS audit.

In 2014, the IRS released a notice discussing certain aspects of the treatment of digital currencies for U.S. federal income tax purposes and, in particular, stating that, for U.S. federal income tax purposes, digital currency is “property” that is not currency and may be held as a capital asset. There can be no assurance that the IRS will not alter its position with respect to digital currency in the future or that a court would uphold the treatment set forth in the IRS notice. Moreover, it is unclear what guidance on the treatment of digital currency for U.S. federal income tax purposes may be issued in the future. It is possible that any such guidance would have a negative effect on the prices of digital currency and therefore may have an adverse effect on the Fund. For example, legislation has been introduced that could, if enacted, cause digital currency to be treated as currency for U.S. federal income tax purposes. If digital currency were properly treated as currency for U.S. federal income tax purposes, gains recognized on the disposition of digital currency would constitute ordinary income and losses recognized on the disposition of digital currency could be subject to special reporting requirements applicable to “reportable transactions.” Because of the evolving nature of digital currencies, it is not possible to predict potential future developments that may arise with respect to digital currencies, including “forks,” “air drops” and other similar occurrences. Such developments may increase the uncertainty with respect to the treatment of digital currencies for U.S. federal income tax purposes.

## **Item 9 –Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the Adviser or the integrity of Adviser’s management.

On May 28, 2009, in matter No. WTM/KMA/68/ISD/05/2009, the Securities and Exchange Board of India (“SEBI”) issued an Interim Order regarding Mr. Dipak Patel (then a co-portfolio manager of Passport’s India strategy), Passport, Passport India Investments (Mauritius) Limited (“Passport India”), and certain other parties. The Interim Order cited prima facie findings that Mr. Patel shared information with two individuals in India regarding certain anticipated trades to be made by Passport India.

Passport placed Mr. Patel on administrative leave and Mr. Patel resigned from Passport shortly thereafter.

The May 28, 2009 interim order issued by SEBI required, among other things, (1) Dipak Patel not to buy, sell or deal in securities, (2) Dipak Patel not to be associated with any foreign institutional investor (as defined by SEBI), (3) Passport and its sub-account Passport India to conduct an internal inquiry into the matter identified in the interim order

and to initiate appropriate action against Dipak Patel, (4) Passport and Passport India to submit a report to SEBI describing the actions taken by them in response to the interim order, and (5) Passport and Passport India to take measures to ensure that trading information is not used to the detriment of market integrity. The interim order also imposed certain obligations on other parties not affiliated with Passport. Passport believes that it timely complied with the interim order in all respects. Mr. Patel is no longer employed by Passport or its affiliates. Passport retained outside counsel to investigate this matter, and a report was provided to SEBI advising, among other things, that the action of Mr. Patel as described in the interim order was contrary to Passport's then-existing policies and that no one else at Passport authorized or was aware of such activity by Mr. Patel. On November 9, 2012, the Securities Appellate Tribunal ("SAT"), Mumbai issued an order to dispose of Appeals no. 216 of 2011, 64 and 78 of 2012 filed by Mr. Patel and certain other appellants. The order stated that (i) while Mr. Patel's conduct may have constituted fraud against Passport, it cannot be said that a fraud was played on the market and (ii) SEBI had erred in holding the appellants guilty of violating regulation 3 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulations, 2003. As such, the SAT, Mumbai set aside the orders against Mr. Patel and the other appellants.

On September 4, 2013, the SAT issued a conflicting ruling in an unrelated case holding that the court should give a liberal interpretation to the concept of front running and that liability for front running should apply to all those connected with the capital markets, not just intermediaries (i.e., brokers).

On June 7, 2016 SEBI issued an order which now cites the subsequent SAT 2013 ruling and re-instates the May 2009 interim order sanctions against Mr. Patel and certain other appellants. Passport India has not had involvement or contact with SEBI regarding the matter since providing its report to SEBI described above.

In a matter unrelated to the above, on March 16, 2011 Passport India received a notice of inquiry form from SEBI regarding a late exchange filing which Passport India had self-reported to SEBI. Specifically, Passport India late filed its disclosure that its position in a particular security had decreased more than 2%. Passport India invoked SEBI's consent order process and resolved the matter without any admission of liability or violation. A monetary fine in the amount of approximately \$18,050.00 USD was paid and the consent order was passed on July 27, 2011.

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

Neither Passport nor any of its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

Passport is registered as a commodity pool operator with the U.S. Commodity Futures Trading Commission in respect of the Passport Special Opportunities funds.

In addition to serving as the investment adviser or sub-adviser for the Funds and Managed Accounts, Passport and John Burbank, CIO, serve as the managing member to various affiliated entities, and Passport Holdings, LLC and Passport Ventures II, LLC, both affiliates of Passport, each serve as general partner to a number of private investment funds.

Vis-à-vis any particular Client, as described above, Passport and its affiliates serve as manager, managing member, general partner, director and/or investment adviser to, and make investments in, other funds and managed accounts available to qualified individual and institutional investors, including the Funds and Managed Accounts (collectively, the "Other Funds"). Passport does not advise Clients as to the appropriateness of investing in such Other Funds. Passport does not receive any compensation for making the investments available to Fund investors and Clients (except to the extent that Passport receives Management Fees and performance-based fees) or for selling interests in the Other Funds.

The allocation of investment opportunities among Other Funds with investment objectives that are similar or overlapping may reduce the number, size and type of investment opportunities available to a particular Fund. In situations where the investment in question may be deemed to satisfy the investment objectives of multiple Other Funds and/or Other Pools, there will be conflicts of interests between the Other Funds and/or the Other Pools regarding which of such entities will be given the opportunity to make such investment and, if such investment is to be made by the Other Funds and/or the Other Pools, the proportions in which such investment will be allocated between the Other Funds and/or the Other Pools. Certain Other Funds or Other Pools charge its investors a higher management fee and bears a higher incentive allocation compared to others. The opportunity to receive higher levels of compensation, including performance-based compensation, may create an incentive for the Adviser and/or its personnel to allocate attractive investment opportunities to the higher fee-paying Other Funds and Other Pools.

The Adviser and its members, officers, directors, employees, principals or affiliates will attempt to allocate investment opportunities in a manner that they determine is fair and equitable as measured over time. Where there are conflicts of interest in allocating a particular investment between any of the Other Funds and/or the Other Pools, there can be no assurance that a particular Fund will make such investment, even if the investment satisfies the Fund's investment objectives. An investment may be allocated (i) wholly or primarily to an Other Fund or Other Pool or (ii) wholly or primarily to a particular Fund with any Other Fund or Other Pool not sharing the risks of such investment. In addition, in circumstances in which a particular Fund may make an investment that the Other Funds or

Other Pools already have made, or concurrently will make or seek to make, liquidity and concentration considerations may limit such Fund's participation in such investment or its ability to dispose of the investment readily. Furthermore, the Adviser or its affiliates may take action with respect to an investment on behalf of one of the Other Funds and/or the Other Pools that differs from the action taken with respect to the investment on behalf of any other of the Other Funds or Other Pools. It is possible that an action taken on behalf of an Other Fund with respect to an investment could have an adverse effect on another Fund.

The Digital Network Fund intends to invest in Other Pools. The Adviser will have potentially conflicting division of loyalties and responsibilities regarding the Digital Network Fund and Other Pools, and certain conflicts of interest will be inherent in such investment. There can be no assurance that the interests of the Digital Network Fund will not be subordinated to Other Pools or to other interests of the Adviser.

Employees, officers, directors, principals or members of the Adviser and its affiliates may conduct any other business including any business with respect to securities and digital assets and blockchain technology. Certain of the members, officers, directors, employees and principals of the Adviser (including Mr. Burbank and various of the portfolio managers) (i) may, among other activities, acquire substantial investments in certain other investment partnerships managed by the Adviser and (ii) may perform the same management services and functions for an Other Fund as they perform for the Digital Network Fund. Mr. Burbank expects to spend a significant portion of his time on matters related to Other Funds and his own personal investments. As a result, conflicts of interest will arise, including in allocating management time, services and functions between the Digital Network Fund and Other Funds in which the general partner's or the Adviser's affiliates, employees, officers, directors, principals or members may have a greater financial interest.

Personnel of the Adviser may invest in various cryptocurrencies and related instruments and/or Underlying Funds focused on digital asset investing in their personal trading accounts or foundations for which they may serve as a trustee. Such persons hold interests in the Underlying Funds that are expected to be the subject of an investment by the Digital Network Fund. The trading activity of such persons may differ from or be inconsistent with activities undertaken for the account of the Digital Network Fund in such Underlying Funds and instruments. For example, personnel of the Adviser may purchase a digital currency-related instrument for their personal accounts at a time when a Fund is selling the same instrument. Alternatively, personnel of the Adviser may take a short position in a digital currency-related instrument on behalf of their own accounts while the Fund maintains a long position in the same instrument.

In addition, personnel of the Adviser may make seed investments with respect to certain Underlying Funds, and such seed investments may entitle such personnel to receive amounts in respect of Management Fees or performance compensation otherwise payable

to the managers of such Underlying Funds. While such personal investments may give rise to conflict of interest in that they may create an incentive to cause the Digital Network Fund to make an investment in such Underlying Funds in order to increase the likelihood that such Underlying Funds will be successful, the personnel will not receive any additional fees in connection with the Digital Network Fund's investment in such Underlying Funds.

There can be no assurance that actions taken with respect to the personal accounts of Adviser personnel will not adversely affect the Funds and, indirectly, the Funds' investors. It is often difficult to anticipate or predict all circumstances under which the interests of the Funds and the Funds' investors, on the one hand, and personnel of the Adviser, on the other hand, may come into conflict.

Passport does not recommend or select other investment advisers for its Clients from which it directly or indirectly receives compensation.

*Transactions with the Trading Affiliate.* The Adviser intends to engage Digital Currency Trading Inc. (the "Trading Affiliate"), an over-the-counter digital currency trading business that is an affiliate of Passport Ventures II, LLC and the Adviser, to execute all or a portion of the bitcoin, ether and certain other digital currency transactions placed on behalf of the Digital Currency Fund and other Passport-managed vehicles from time to time including indirectly (such engagement, the "Trading Affiliate Engagement").

The Trading Affiliate, which is indirectly owned and controlled by certain affiliates of the Adviser, was organized in order to utilize the Adviser and its affiliates' deep understanding of the digital currency markets to provide a superior platform for customers looking for access to opportunities in the digital currency space. The Adviser, Passport Ventures II, LLC and their respective affiliates believe that the Trading Affiliate Engagement will be mutually beneficial to the applicable Fund and to the Trading Affiliate: such Fund will receive the benefit of the Trading Affiliate's services on a commission-free basis for all of the bitcoin, ether and certain other digital currency transactions executed by the Trading Affiliate on behalf of the Fund. In addition, the order flow generated by such digital currency transactions of the Funds is expected to aid the growth of the Trading Affiliate's business, including by enhancing the perception of the Trading Affiliate among market participants.

Because the Trading Affiliate Engagement is an affiliated transaction it presents conflicts of interest between the Fund, on the one hand, and the Adviser and its affiliates, on the other hand.

*The Trading Affiliate.* The Trading Affiliate is a Delaware corporation, organized in May 2018, and registered as a money services business with FinCEN. It is wholly owned by Passport Digital Holdings, LLC, which is, in turn, owned and controlled by various employees of the Adviser as well as John Burbank. Employees of the Adviser serve as



directors and officers of the Trading Affiliate, including William Peets, a Portfolio Manager of the Digital Currency Fund, who serves as both a director of the Trading Affiliate and the Chief Investment Officer of Passport Digital Holdings. Customers of the Trading Affiliate may include (i) investors in the Digital Currency Fund or in Other Funds and (ii) individuals or entities related to portfolio investments of the Digital Currency Fund, such as projects associated with ICO investments.

*The Trading Affiliate Engagement.* Under the Trading Affiliate Engagement, the Trading Affiliate will facilitate bitcoin, ether and certain other digital currency transactions for both the Digital Currency Fund (directly or indirectly through subsidiary entities) and other non-client third parties (“Non-Clients”). When facilitating any such digital currency transactions between the Digital Currency Fund and a Non-Client, the Trading Affiliate currently does not expect to seek any compensation (*e.g.*, a fee or commission) from either the Digital Currency Fund or the Non-Client in connection with the digital currency transaction. However, in the future, the Trading Affiliate may receive compensation from Non-Clients in transactions between the Digital Currency Fund and Non-Clients. In such event, the Adviser intends to put in place policies and procedures designed to mitigate additional conflicts of interest the receipt of such compensation may present.

The Trading Affiliate may be the Digital Currency Fund’s exclusive venue for bitcoin, ether and certain other digital currency transactions. The Fund will continue to source and maintain relationships with other, independent OTC digital currency trading businesses for trading in other digital assets. However, in the future, the Fund may utilize the Trading Affiliate in connection with transactions in digital assets in addition to bitcoin and ether.

*Potential Conflicts of Interest.* As noted above, the Trading Affiliate Engagement presents certain inherent and potential conflicts of interests. Any trade orders placed by the Adviser through the Trading Affiliate will increase the available liquidity, or order flow, that the Trading Affiliate can provide to the market, and such additional liquidity may contribute to an enhanced perception of the Trading Affiliate among digital currency market participants and corresponding growth and profitability of its business. Accordingly, the Adviser will have an incentive to route bitcoin, ether and certain other digital currency transactions through the Trading Affiliate that it otherwise may have routed through an independent third party in order to increase the Trading Affiliate’s available liquidity, and thus its reputation among market participants and/or to trade more frequently on the Digital Currency Fund’s behalf than it may otherwise have determined to trade.

In addition, to the extent that the customers of the Trading Affiliate that engage in bitcoin, ether and certain other digital currency transactions with the Fund are investors in Other Funds, or are customers related to portfolio investments of any such fund or account, the

Adviser may have an incentive to cause the Fund to trade with such customers in order to develop and enhance the Adviser's relationships with such persons.

While the Adviser intends to review trading relationships regularly to ensure that the Fund receives best execution, taking into account all relevant factors, including the commission-free basis on which the Trading Affiliate will place trades for the Fund, there is no guarantee that third party trading desks would not provide superior execution (*e.g.*, better price, faster speed) with respect to any trade placed through the Trading Affiliate.

To the extent that the Trading Affiliate receives compensation from a Non-Client in the future in connection with trades placed for the Fund, such compensation will provide additional incentives for the Adviser to route trades through the Trading Affiliate and/or trade more frequently than it otherwise might have traded on behalf of the Partnership. If the Trading Affiliate seeks to receive such compensation, the Adviser intends to put in place additional policies and procedures designed to ensure that the Fund continues to receive best execution for trades placed through the Trading Affiliate taking into account all relevant factors.

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

Passport has adopted a Code of Ethics for all supervised persons describing its standards of business conduct. The Code of Ethics includes provisions relating to the confidentiality of investor information, personal securities trading, acceptance of gifts, and participation in outside business interests, among other things. All supervised persons at Passport must acknowledge the terms of the Code of Ethics annually and when amended. A copy of Passport's Code of Ethics is made available to investors and prospective investors upon request.

Passport anticipates that, in appropriate circumstances, consistent with Clients' investment objectives, it will cause accounts over which it has management authority to purchase or sell securities in which Passport, its affiliates and/or Clients, directly or indirectly, may have a position of interest. Passport anticipates that in most, but not necessarily all, circumstances it will also recommend such purchases or sales of securities to Clients. The determination and resolution of any conflict will be addressed by the Chief Compliance Officer.

All employees and other supervised persons are required to follow the Code of Ethics. Subject to satisfying this policy and applicable laws, Passport and its members, owners,

directors, officers and employees, and their immediate families to the extent residing in the same household may trade for their own accounts in securities that are recommended to and/or purchased for Passport's Clients. The Code of Ethics is designed to prevent the personal securities transactions, activities and interests of employees and other supervised persons from interfering with their duty to act in the best interest of Passport's Clients. However, actual or apparent conflicts of interest may exist. Personal trading is periodically monitored under the Code of Ethics in an attempt to reasonably prevent conflicts of interest between Passport and its Clients. The Code of Ethics requires pre-clearance of many transactions and restricts trading in close proximity to Client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit Passport and its employees and other supervised persons to invest in the same securities as Clients, or in securities that Passport determines is not appropriate for a Client due to certain parameters of the investment strategy for such Client, there is a possibility that supervised persons might benefit from market activity by a Client in a security also held by a supervised person or benefit from a security that is not otherwise held by a Client.

Passport manages portfolios on behalf of its Clients for which certain securities or investment opportunities may be appropriate for more than one Client. Passport has adopted a Trade Aggregation and Allocation Policy that applies to all portfolios managed by Passport, which is reasonably designed to ensure that trades and investment opportunities are allocated on a basis Passport believes to be fair and equitable. This policy is reviewed and updated as needed on a periodic basis.

In allocating investment opportunities among Clients, Passport will consider several factors including:

- a. The investment objectives of the respective Client;
- b. The current exposure of each Client to that particular position or that particular sub-sector;
- c. The target allocation of each Client for that particular position or that particular sub-sector;
- d. The current exposure (long, short, gross and net) of each Client in total and by sub-sector; and
- e. The liquidity of the investment opportunity.

Passport may cause a Client to invest in a company undertaking an initial public offering ("IPO"), or an initial coin offering ("ICO"). Generally, a company issuing securities in an IPO, or digital assets in an ICO, will have a limited operating history and thus such investments may be, in many cases, considered speculative. Given that such investments involve

decisions regarding how scarce investment opportunities will be allocated among Funds, Passport adopts and maintains formal, written policies and procedures for all existing and new Funds that address eligibility and allocation in regard to such opportunities, with special attention to the suitability of such investments for a particular Fund in light of the investment objectives and strategies of such Fund, as set forth below.

Currently only one Fund potentially participates in IPOs: Passport Special Opportunities Fund (the “Special Opportunities Fund”). While the Special Opportunities Fund may sometimes participate in IPOs, it is expected that it will participate in relatively few IPOs due to the high concentration strategy and/or long duration / low turnover profile it employs. In other words, the nature of IPO allocations are such that the Special Opportunities Fund typically will not receive a sufficiently large allocation of the security that is offered to satisfy its high concentration strategy. However, if a security that is the subject of an IPO is an appropriate investment for the Special Opportunities Fund, and the Firm receives a sufficiently large allocation of such security to meet the Special Opportunities Fund’s concentration criteria and the Passport Special Opportunities Fund desires to hold the position long-term, then it may participate in the IPO investment. However, to the extent more than one Fund is eligible for an IPO investment, such allocation will be made based on the Funds’ strategy and other factors, including:

- a. The investment objectives of the respective Funds;
- b. The current exposure of each Fund;
- c. The target allocations of each Fund; and
- d. The expected liquidity of the investment opportunity.

The procedures regarding preliminary and final allocation statements set forth above will be followed in the case of allocations of IPOs among Funds.

IPO profits and losses may not be allocated to “Restricted Persons” in violation of FINRA rules. Compliance will periodically consult with Passport’s accounting personnel regarding Fund accounting methods to confirm that allocations of IPOs are not being made to “Restricted Persons” in violation of such rules. Passport will periodically, and no less frequently than annually, confirm investors’ eligibility to participate in IPOs under such rules.

Only one Fund is eligible to participate in ICOs, given the strategies of the various Funds: Passport Digital Network, L.P. (for purposes of this Item, the “Fund of Funds”). However, the capacity of the Fund of Funds to participate in ICOs is limited given the illiquidity of many ICOs and the liquidity requirements of the Fund of Funds’ portfolio, including the cap on side pocket investments.

Compliance will consult with portfolio managers on a periodic basis, and in no case less frequently than annually, to review all allocations of IPOs and ICOs across Passport's clients, to ensure compliance with these policies and procedures, and to determine whether any of the policies and procedures set forth herein should be updated.

Compliance will also review Fund offering and accounting methods to ensure consistency with these policies and procedures and will review Fund offering documents (for existing and any new Funds) for accuracy in descriptions of current practice and to ensure that eligibility to participate in IPOs and ICOs is clearly disclosed.

If and when a new Fund is created, Passport will evaluate how this policy may be impacted, in light of the strategy of that Fund, and will make any necessary changes to the policy to take such Fund into account and to ensure that investment opportunities continue to be allocated in a fair and equitable manner.

From time to time, Passport may obtain limited investment opportunities in certain securities in an amount that Passport determines to be appropriate for some or all of the Funds, including certain Funds that may be formed for the purpose of participating in co-investment opportunities, or Managed Accounts, and the remaining portion of which, if any, Passport may elect to make available for co-investment (each, a "Co-Investment Opportunity") to current and prospective investors. In addition, Passport and/or its affiliates may separately participate in the Co-Investment Opportunities offered to Funds and Managed Accounts and investors. As such, Passport and/or its affiliates may hold the same securities as are held by a Fund or Managed Account or certain of the investors therein, and this may create a conflict of interest among Passport, such affiliated holders and the respective Fund, Managed Account or investor. In cases where the portfolio manager deems the investment opportunity appropriate for a Fund or Managed Account, Passport would make the Co-Investment Opportunity available to individual investors once the Funds and Managed Accounts have been allocated their appropriate share of the available investment opportunity.

From time to time, Passport may accept as investors in a Fund certain affiliated entities and individuals, including Passport and its affiliates, as well as other private investment vehicles of which Passport is a general partner, manager, or investment adviser. For example, Passport, its employees or a related entity will generally have an investment in the Funds Passport manages. As discussed above in Item 10, personnel of the Adviser may make seed investments with respect to certain Underlying Funds, which may lead to certain conflicts of interest although the personnel will not receive any additional fees in connection with the Digital Network. Passport may also invest a Fund's or Managed Account's assets, either directly or indirectly, in investment vehicles managed by Passport. Therefore, Passport, its employees or a related entity may participate, indirectly, in transactions effected for private investment vehicles. Due to the relationship between

Passport and such private investment vehicles, Passport could be considered to have recommended the investment should a person who is otherwise a Client of Passport invest.

Periodically, Passport may seek to adjust or rebalance Client investment accounts or portfolios by effecting cross trades between or among such Client investment accounts, including accounts of Funds in which Passport and/or its affiliates are invested (i.e., causing one or more such Funds to sell securities to one or more such Funds or Managed Accounts). Cross trades may involve conflicts of interest between or among Passport and the accounts of Clients participating in the cross trades as well as among the participating Client accounts. In effecting cross trades, Passport seeks to reduce the transaction costs to its participating Clients with respect to such account adjustments. All such cross trades will be consistent with the investment objectives and policies of each Fund or Managed Account involved in the trades and typically will be effected at a current independent market price of the securities involved in the trades determined by Passport or by an authorized representative of any Passport-advised Fund or Managed Account involved in the cross trade. If no independent market price is available, a cross trade will not be effected subject to limited exceptions requiring express approval of an alternative pricing methodology by Passport's compliance group. Notwithstanding the foregoing, if the assets of any Client account are deemed to be "plan assets" under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), Passport will not effect cross trades with respect to that Client's account unless Passport determines that the account's participation in cross trades would not result in a prohibited transaction under ERISA. In addition, certain Passport strategies do not participate in cross trades.

The Adviser or its affiliates may enter into "principal transactions" with Clients within the meaning of Section 206(3) of the Advisers Act in which any of the Adviser or such affiliates act as principal for its own account with respect to the sale of a security to or purchase of a security from a Client. Principal transactions and other significant transactions between a Client and the Adviser or its affiliates will be done in compliance with applicable law. In analyzing such trades, the Adviser will have a conflict between acting in the best interests of the applicable Client and assisting itself or its affiliate by selling or purchasing a particular security. The determination and resolution of any conflict will be addressed by the Chief Compliance Officer.

## **Item 12 – Brokerage Practices**

Federal law requires Passport to deal fairly and honestly with and on behalf of its Clients. While Passport is not required to obtain the lowest available commission rate for executing a given trade, it is Passport's fiduciary obligation to use its "best efforts" to obtain a

reasonable commission rate in relation to the quality of the execution and the value of brokerage services received from the executing broker. Therefore, Passport has adopted standards with respect to executing trades.

It is Passport's policy for the Chief Operating Officer, in consultation with the portfolio managers and traders, to assess a new broker-dealer relationship using some or all of the following performance factors:

- Execution capability;
- Research quality;
- Commissions and pricing;
- Block trading coverage for a particular security;
- Effective communications;
- Ability to position the proposed trade (for example: the trading of odd lots)
- Distribution and underwriting capabilities;
- Use of electronic efficiencies;
- Ability to settle trades efficiently;
- Financial stability;
- Ancillary services; and
- General reputation.

No relationship may be initiated or maintained with a broker-dealer that is:

- Suffering business continuation difficulties that have been publicly reported upon that in the opinion of the Chief Compliance Officer impacts its ability to perform.
- A party to litigation or the subject of government investigation that in the opinion of the Chief Compliance Officer impacts its ability to perform.

Passport evaluates existing broker-dealer relationships using the assessment factors itemized above.

Passport conducts meetings with trade personnel (including portfolio managers and traders) to review its approved broker dealers, as reflected on Passport's written broker commission report.

**Research and Other Soft Dollar Benefits.** It is Passport's policy to limit its use of soft dollars to arrangements falling within the safe harbor of Section 28(e) of the Securities Exchange Act of 1934, as amended. Only bona fide research and brokerage products and

services that provide assistance to Passport in the performance of its investment decision-making responsibilities are permitted and any allocation of brokerage commissions is reasonable in relation to the research, service or product provided.

Passport receives a wide range of research services from brokers and dealers. These services include information on the economy, industries, groups of securities, individual companies, statistical information, political developments, legal developments affecting portfolio securities, technical market action, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis and analysis of corporate responsibility issues. These services provide both domestic and international perspective. Passport may use soft dollars to pay for research services provided by companies owned by, or affiliated with, Passport or its principals only if Passport determines that: (i) the research services provide assistance to Passport in its investment decision making responsibilities, (ii) any such arrangement is made on arm's length and (iii) the fees paid to such providers are reasonable in relation to similar services available in the marketplace. As of the date hereof, Passport uses soft dollars to pay DeMARK, a data analytics provider that is owned less than 25% by John Burbank (see above). Research services are received primarily in the form of written reports, computer-generated services, telephone contacts and personal meetings with security and macro analysts. In addition such services may be provided in the form of meetings arranged with corporate and industry spokespersons, economists, academicians and government representatives. In some cases, research services are generated by third parties but are provided to Passport by or through broker-dealers.

Consistent with seeking best execution, Passport may direct transactions for the Funds and Managed Accounts to executing brokers in return for research or brokerage services furnished by them to Passport. Selecting an executing broker in recognition of such research or brokerage services, rather than on the basis of simple transaction execution, is known as paying for those services with "soft dollars." Research and other brokerage services or products received by Passport generally will be used to service all of the Passport-advised Funds and Managed Accounts. However, it is possible that brokerage commissions paid by the account of a particular Fund or Managed Account may be used to pay for research or services that are not used in managing that particular Fund or Managed Account. In some cases, the soft dollars paid to an executing broker for a Fund's or Managed Account's transactions may be greater than the commissions that are charged by another broker that does not provide soft dollar research or services to Passport. Because many brokerage soft dollar products or services could be considered to provide a benefit to Passport, and because the soft dollars used to acquire them are the assets of the client Funds and/or Managed Accounts paid as execution costs, Passport could be considered to have a conflict of interest in allocating client brokerage business.



Passport does not use brokerage in exchange for client referrals nor does it participate in directed brokerage.

**Aggregation Policy.** The SEC has stated that when a transaction is suitable for more than one client, an investment adviser may aggregate trade orders and allocate purchase and sale opportunities on a fair and consistent basis. Management of the Funds' and Managed Accounts' portfolios is governed by the principle of fair allocation of investment opportunities.

Passport manages portfolios for which certain securities or investment opportunities may be appropriate for more than one of the portfolios. The following policy applies to all portfolios managed by Passport and is designed to ensure that trades are allocated on a basis Passport believes to be fair and equitable.

Subject to exceptions referenced below, Passport aggregates contemporaneous trade orders for the same security on the same day. Each Fund or Managed Account that participates in an aggregated order through a broker will participate at the average price for all of Passport's transactions that fill that order that day. Transaction costs are promptly allocated to each applicable Fund and Managed Account on a pro rata basis based upon the ratio of the amount of particular issue of securities purchased or sold for the fund/account in relation to the overall amount of that issue purchased or sold for all accounts in the aggregated order.

On occasion, Passport will not purchase or sell in a single day all of the securities ordered as part of an aggregated order. If the order is partially filled, it will generally be allocated pro rata in proportion to the size of the orders placed for each fund based on the final allocation instructions.

Notwithstanding the foregoing, if an order is partially filled, it may be allocated on a basis different from that specified in the final allocation instructions, provided that the participating funds/accounts receive fair and equitable treatment consistent with this policy and procedures. The reason(s) for allocating on a basis different from the final allocation should be explained in reasonable detail and documented with the Compliance department.

Once an order is filled, or partially filled, subsequent same day orders for the same security from other funds or accounts will not necessarily be aggregated with the previously filled order if to do so would not be equitable under the circumstances.

Different portfolio managers or teams may on occasion be active in the same security on the same day. Orders for the same security on the same day may be worked and filled separately if the terms of the orders, or the desired pace of fill specified by the respective

portfolio managers, are different, or if the portfolio manager(s) specifically request individual order segregation.

Other permissible bases for not aggregating trades in a particular situation include: use of limit orders or other different terms or objectives makes aggregation disadvantageous or inequitable; the head trader or relevant portfolio managers determine in a particular case that all participating funds or accounts would likely benefit from working orders individually with several brokers; foreign market regulations or foreign market settlement practices preclude effective aggregation; or the head trader or relevant portfolio managers determine that aggregation will create trading inefficiencies in a given case.

### **Item 13 – Review of Accounts**

Mr. Burbank and portfolio managers he assigns are responsible for the daily review of the Special Opportunities Fund. William Peets and Seth Spalding, Portfolio Managers of the Passport Digital Network Fund, review the accounts on a daily basis along with any risk team and investment team member(s).

The reviewers are instructed to focus on factors such as performance of a position compared to its industry and in light of general economic trends, and to monitor individual security position levels, diversification levels, cash and cash-equivalent positions, other position limits, industry, country and sector weightings and adherence to investment guidelines, as applicable.

Investors in the Funds, except Passport Ventures, receive a monthly statement of their holdings in the Funds managed by Passport. Investors in Passport Ventures receive quarterly statements of their holdings. Holders of the Managed Accounts receive such reporting as designated in the IMA in place for each Managed Account.

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

**Third Party Solicitor Arrangements.** Passport may enter into third party solicitor arrangements whereby it pays a referral fee for investor referrals. Any such arrangements are consistent with Rule 206(4)-3 of the Advisers Act. Clients of Passport whose accounts involve third party solicitor arrangements are advised of the arrangement in writing and do not pay higher fees as a result of the arrangement.

These third party solicitor arrangements involve potential conflicts of interest that prospective investors should carefully consider before investing in a Fund or establishing a Managed Account. For example, compensation for referrals, whether prospective or actual,

may provide such solicitors with an incentive to favor sales of interests in such Funds over sales of other interests in other vehicles that have lower or no fees. Prospective investors may wish to take such potential fee arrangements into consideration when considering any recommendations relating to investing in a Fund or Managed Account.

## **Item 15 – Custody**

Due to the nature of certain affiliations Passport or certain of its related persons has with the general partners or directors of certain Funds and/or its service as general partner or managing member of certain Funds, Passport is considered to have custody of the client funds and securities of such Funds under Rule 206(4)-2 under the Advisers Act (the “Custody Rule”).

With the exception of certain instruments evidencing ownership of certain privately issued securities, custody of the securities of each Fund is maintained under clearing broker arrangements with one or more clearing brokers or banks (the “Custodian”) selected by Passport in its sole discretion, each of whom is a “qualified custodian” as required under the Custody Rule. Such instruments evidencing ownership of privately issued securities are maintained in accordance with the Custody Rule. Passport enters into a Disbursement Procedures Agreement with each Fund’s Custodian, which restricts the Custodian from making any fee or allocation payments to Passport or its affiliates from any account maintained by the Custodian unless they receive a duly signed request from the outside Administrator of the Fund in conjunction with an authorized signatory of Passport with the exception of Passport Ventures where Passport has sole authorization. Passport also engages an independent public accountant registered with, and regularly examined by, the Public Company Accounting Oversight Board to conduct annual financial audits of its Funds prepared in accordance with U.S. Generally Accepted Accounting Principles and deliver the audited financial statements directly to investors in such Funds within 120 days (or 180 days for fund of funds) of the end of the Funds’ fiscal year.

Custody of a Fund’s digital currencies will be maintained by the Adviser and/or third-party custodians selected by the Adviser. To the extent the Adviser maintains custody of any of a Fund’s digital currencies, the Adviser will hold the private keys that control movement of the currencies. The Adviser may also determine, in its sole discretion, to generate the private keys and custody certain digital assets internally as well as with third party wallet providers. Currency exchanges may also require the Adviser to provide control of the private keys when the exchange is utilized by a Fund. Digital assets held at exchanges take various measures to safeguard the digital assets held by such exchanges. The Adviser is responsible for taking such steps as it determines, in its sole judgment, to be required to

maintain access to these keys, and prevent their exposure from hacking, malware and general security threats. To the extent that the security system is penetrated, any loss of a Fund's digital currencies may adversely affect an investor's investment, and could result in total loss of capital.

To the extent reasonably practicable, the Adviser will maintain the Fund's digital assets with a qualified custodian in an account in the name of the Fund or in an omnibus account under the name of the Adviser as agent or trustee for the Adviser. The Adviser has developed policies and procedures for safekeeping of such digital assets. In addition, digital assets may be held at exchanges, which take various measures to safeguard the digital assets held by such exchanges but are subject to additional risks as described herein.

#### **Item 16 – Investment Discretion**

Passport has full discretionary authority over assets held by the Funds and discretionary Managed Accounts, limited only by the investment guidelines set forth in each Fund's governing documents, PPM and IMA and each discretionary Managed Account's IMA. Investment discretion exercised by Passport includes discretion regarding:

1. Securities to be bought or sold;
2. The amount of the securities to be bought or sold;
3. The broker-dealer to be used in the transaction; and
4. The commission rate to be paid to the broker-dealer that executes the transaction.

Passport's discretionary authority may be subject to conditions imposed by each Fund and Managed Account (for example, investment restrictions regarding specific securities or industries, gross or net exposure guidelines, or maximum position sizes).

Prior to assuming discretionary authority of a new Fund or Managed Account, an IMA is prepared and executed.

#### **Item 17 – Voting Client Securities**

Passport accepts and exercises proxy voting authority with respect to securities held in the pooled investment vehicles (and may do the same with regard to Managed Accounts as mandated by their respective IMAs) with the exception that securities that may be lent out pursuant to a Master Securities Lending Agreement may, from time to time, not be voted by

Passport. Applicable law states that it is a fraudulent, deceptive or manipulative act for Passport to exercise voting authority with respect to the Funds' or Managed Accounts' securities without first adopting and implementing written policies and procedures that are reasonably designed to ensure that proxies are voted in the best interest of its Clients. Potential or actual conflicts of interest that exist between the Adviser (or its principals or employees) and the Fund or Managed Account's best interests may require that either Client consent to vote the proxy is obtained or that Passport delegate voting authority back to the Client or a qualified third party. Generally, Clients are not able to direct the vote in a particular situation. Policies and procedures are implemented by Passport to ensure its compliance with all regulatory requirements and are made available to investors in the Funds and Managed Accounts upon request.

Upon written request to a member of Passport's investor relations group or its Chief Compliance Officer, Passport will promptly provide an Investor in a Fund or Managed Account information as to how the Client voted (or declined to vote) a proxy(s) relating to a security(s) held by the Client, including the date of such action and the basis for the vote or decision not to vote a proxy(s).

Managed Accounts may decide to vote their own proxies. In such cases they will receive their proxies or other solicitation directly from their custodian or a transfer agent. A Managed Account may contact Passport's Chief Compliance Officer with questions regarding a particular solicitation.

## **Item 18 – Financial Information**

Passport does not require or solicit pre-payment of fees six months or more in advance. Passport has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to Clients and has not been the subject of a bankruptcy proceeding.

## **Item 19 – Requirements for State-Registered Advisers**

This section is not applicable to Passport.

# ADV Part 2B Brochure Supplement

John H. Burbank III

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Will Peets

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Seth Spalding

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San Francisco, CA 94105(415) 321-4600  
[www.passportcapital.com](http://www.passportcapital.com)  
March 29, 2018

This brochure supplement provides information about the above-named persons that supplements Passport's brochure. You should have received a copy of that brochure. Please contact Investor Relations if you did not receive Passport's brochure or if you have any questions about the content of this supplement.

## JOHN H. BURBANK, III

### Educational Background and Business Experience

Title: Chief Investment Officer  
Born: 1964  
Education: Stanford University, Graduate School of Business, MBA 1992  
Duke University, BA, English, 1987  
Background: August 2000 – Present, Managing Member and Chief Investment Officer, Passport  
1999 – 2000, Consultant, JMG Triton Offshore, Ltd.  
1996 – 1998, Director of Research, ValueVest Management  
1992 – 1996, Private Investor, Self-employed

### Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this item.

### Other Business Activities

John Burbank is an associated person of Passport, a registered commodity pool operator. Mr. Burbank also maintains a family office that may make certain investments that are generally not deemed consistent with the investment strategies of the various Passport funds and accounts. Mr. Burbank does not spend a substantial amount of time addressing family office matters. These investments generally consist of passive early stage venture capital investments that are ineligible holdings for the various Passport funds and accounts. Any conflict of interest that may arise will be determined and resolved by the CCO or COO of Passport.

### Additional Compensation

Not applicable

### Supervision

Mr. Burbank is the Founder and Chief Investment Officer of Passport. He can be reached at (415) 321-4600. Although no person is directly responsible for supervising Mr. Burbank's advisory activities, he works on a collaborative basis with the other investment and risk professionals of Passport.

## **WILL PEETS, CFA\***

### **Educational Background and Business Experience**

Title: Portfolio Manager and Chief Risk Officer  
Born: 1983  
Education: California Polytechnic State University San Luis Obispo, B.S. in Business Administration with concentrations in Accounting and Finance  
Background: March 2014 – Present, Portfolio Manager and Chief Risk Officer, Passport  
2006 – 2014, Vice President, MSCI Inc.

\*Earning the CFA charter requires successful completion of the CFA Program, a graduate-level self-study program that combines a broad curriculum with professional conduct requirements, culminating in three sequential exams covering topics such as Ethical and Professional Standards, Quantitative Methods, Economics, Financial Reporting, Security Analysis, and Portfolio Management. Charters are issued by the CFA Institute which is a global, not-for-profit organization comprising the world's largest association of investment professionals dedicated to developing and promoting the highest educational, ethical, and professional standards in the investment industry.

Earning the CAIA charter requires successful completion of two levels of qualifying exams, combined with relevant professional experience. Level I assesses the understanding of various alternative asset classes and knowledge of the tools and techniques used to evaluate the risk-return attributes of each one. Level II assesses the application of the knowledge and analytics learned in Level I within a portfolio management context.

### **Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this item.

### **Other Business Activities**

Not applicable

### **Additional Compensation**

Not applicable

### **Supervision**

Mr. Peets is a Portfolio Manager and Chief Risk Officer of Passport. He can be reached at (415) 321-4600. Although no person is directly responsible for supervising Mr. Peet's advisory activities, he works on a collaborative basis with the other investment and risk professionals of Passport.



## **SETH SPALDING, CFA\***

### **Educational Background and Business Experience**

Title: Portfolio Manager  
Born: 1972  
Education: Stanford University, AB in Human Biology, 1995  
Background: February 2004 – Present, Portfolio Manager, Passport  
2001 – 2002, VP, Goldman Sachs  
2000 – 2001, Director of Research, Epoch Partners  
1998 – 2000, Research Analyst, C.E. Unterberg Tobin  
1995 – 1998, Research Associate, Gartner Group

\*Earning the CFA charter requires successful completion of the CFA Program, a graduate-level self-study program that combines a broad curriculum with professional conduct requirements, culminating in three sequential exams covering topics such as Ethical and Professional Standards, Quantitative Methods, Economics, Financial Reporting, Security Analysis, and Portfolio Management. Charters are issued by the CFA Institute which is a global, not-for-profit organization comprising the world's largest association of investment professionals dedicated to developing and promoting the highest educational, ethical, and professional standards in the investment industry.

### **Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of each supervised person providing investment advice. No information is applicable to this item.

### **Other Business Activities**

Not applicable

### **Additional Compensation**

Not applicable

### **Supervision**

Mr. Will Peets, Passport's Portfolio Manager and Chief Risk Officer, is responsible for supervising and reviewing the investment and research activities of Mr. Spalding. Mr. Peets can be reached at (415) 321-4600.