

# **Hein Park Capital Management LP Form ADV Part 2A Firm Brochure**

**888 Seventh Avenue, Floor 4  
New York, NY 10019  
(718) 766-8223**

**September 6, 2019**

This brochure provides information about the qualifications and business practices of Hein Park Capital Management LP. If you have any questions about the contents of this brochure, please contact us at (718) 766-8223. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Hein Park Capital Management LP is a registered investment adviser. Registration with the SEC does not imply a certain level of skill or training.

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

## **Item 2 Material Changes**

This brochure is our initial filing. In the future, Item 2 will discuss material changes that have been made since our last annual update filing and will provide a summary of those changes that are reflected in the updated brochure.

### Item 3 Table of Contents

The following is the table of contents for this brochure:

Item 1- Cover Page .....	Page 1
Item 2- Material Changes .....	Page 2
Item 3- Table of Contents .....	Page 3
Item 4- Advisory Business.....	Page 4
Item 5- Fees and Compensation .....	Page 4
Item 6- Performance-Based Fees and Side-By-Side Management .....	Page 5
Item 7- Types of Clients .....	Page 6
Item 8- Methods of Analysis, Investment Strategies and Risk of Loss .....	Page 6
Item 9- Disciplinary Information .....	Page 29
Item 10- Other Financial Industry Activities and Affiliations .....	Page 29
Item 11- Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	Page 30
Item 12- Brokerage Practices.....	Page 31
Item 13- Review of Accounts .....	Page 33
Item 14- Client Referrals and Other Compensation.....	Page 33
Item 15- Custody .....	Page 33
Item 16- Investment Discretion .....	Page 33
Item 17- Voting Client Securities .....	Page 33
Item 18- Financial Information.....	Page 34

## **Item 4 Advisory Business**

Hein Park Capital Management LP (“Hein Park” or the “Adviser”), a Delaware limited partnership, is a newly formed investment advisory firm founded on July 16, 2019. Courtney Carson founded and controls Hein Park.

Hein Park will provide investment advisory services to Hein Park-sponsored pooled investment vehicles (each, a “Fund”). The investment advisory services provided to each Fund will be based on the investment objectives and restrictions as set out in a Fund’s offering document. The terms upon which Hein Park serves as investment adviser to a Fund will be established at the time each Fund is established and will be set out in separate investment management agreements or in the underlying Fund documents. The terms of each investment management agreement and other Fund documents may vary from Fund to Fund. See Item 8 for a discussion of the investment strategies that will be employed by Hein Park.

Each Fund will be a U.S. or non-U.S. investment limited partnership, limited liability company or other vehicle that will not be registered or required to be registered under the U.S. Investment Company Act of 1940, as amended (the “1940 Act”). The securities of a Fund will not be and will not be required to be registered under the U.S. Securities Act of 1933, as amended (the “1933 Act”), and will be privately placed to qualified investors in the United States and elsewhere.

As of September 6, 2019, Hein Park had no assets under management. Hein Park expects to provide investment management services on a discretionary basis to the Funds.

## **Item 5 Fees and Compensation**

Hein Park generally receives management fees and performance fees (or allocations) in connection with the investment advisory services it provides to the Funds. Management fees and performance fees payable to Hein Park by a Fund are established by Hein Park at the time of the establishment of a Fund and may vary among each Fund or classes within a Fund. Specific details of such compensation and its method of calculation are set out in the investment management agreements and/or underlying governing documents (including offering materials) of the relevant Fund. Management fees generally are calculated and payable quarterly in advance based on a Fund’s assets on the first business day of such quarter, typically at annual rates ranging from 1% to 1.5%. Performance fees and allocations generally are calculated and payable or reallocated annually, typically in an amount that ranges from 15% to 20% of the cumulative net profit of an account during the relevant year reduced by a loss recovery account balance, if any. Management fees and performance fees are deducted from each Fund’s assets and are not billed separately.

The amount and method of the calculation of a performance fee or allocation, and of a management fee, may be changed by Hein Park, or the applicable board of directors or general partner(s) of a Fund, at any time with the consent of the Fund’s investors or limited partners. Hein Park, or the applicable board of directors or general partner(s) of a Fund, may waive, reduce or calculate differently the management fee or performance fee or allocation applicable to any investor without the consent of, or notice to, any other investor.

In addition to the management fees and the performance fees, each Fund will bear expenses related to its operations, including, without limitations, as follows:

- 1) Investment and trading expenses, including but not limited to, brokerage commissions, prime broker fees, initial and variation margin, interest and dividend expense, margins, option premiums, brokerage, floor, exchange, and clearinghouse commissions, memberships and fees, other transaction costs and expenses, currency hedging expenses, expenses relating to short sales, obligations incurred in connection with credit arrangements (including repayment obligations, interest, fees and expenses in connection with such credit arrangements), clearing and settlement charges, professional fees (including expenses of consultants, investment bankers, attorneys, accountants and other experts as well as their respective travel, meals, accommodation and entertainment expenses) relating to the operation of a Fund or to the management of its investments, transmission costs, trade support services including, but not limited to, pre- and post-trade support software and related support services, investment-related travel expenses incurred by personnel of

the Hein Park, research and market data (including any computer hardware and connectivity hardware (e.g., telephone and fiber optic lines) incorporated into the cost of obtaining such research and market data), publications, periodicals, data base services and data processing that are directly related to research activities on behalf of a Fund, risk analysis and risk reporting by third parties and risk-related and consulting services, fees of providers of specialized data and/or analysis as to specific companies, sectors or asset classes in which a Fund has made or intends to make an investment, and related expenses;

- 2) Legal and compliance expenses, including legal fees and related expenses incurred in connection with a Fund's investments or proposed investments, the ongoing existence of a Fund, legal costs and related expenses of persons indemnified under a Fund's underlying documents, legal and compliance third-party fees and expenses allocated to a Fund to the extent such services are related to, or otherwise benefit, the organizational, operational, investment or trading activities of such Fund, legal fees and other expenses incurred in connection with regulatory filings required of a Fund or necessitated by its operations or investments, including without limitation Schedules 13F, 13G or 13D, Form ADV, Form PF and Form CPO-PQR, if applicable, registration fees and expenses incurred in connection with Hein Park's compliance with AIFMD and MIFID II, if applicable, litigation and threatened litigation, if any, expenses pertaining to legal inquiries (including regulatory examinations or "sweeps"), and any costs associated with proxy solicitation contests and the preparation of any letters with respect to plans and proposals regarding the management, ownership and capital structure of any portfolio company (and related anti-trust or other regulatory filings) by Hein Park in connection with a Fund's investments;
- 3) Ongoing operational expenses, including ordinary and extraordinary legal expenses, accounting, auditing and tax preparation expenses, directors' fees, record keeping and administration expenses (including costs associated with any third-party administrator to a Fund), valuation expenses (including costs associated with any third-party independent valuation provider to a Fund or Hein Park), the expenses of performance reporting and other communications with investors in the Funds, expenses associated with annual meetings of investors in the Funds, printing and duplication expenses, mailing expenses, premiums for liability insurance or bonds covering indemnified persons, indemnification expenses, the expenses of any independent advisory committee, custodian and transfer agency services, fees and expenses relating to software tools, programs or other technology utilized in managing a Fund (including third-party software licensing, subscription implementation, data management and recovery services and custom development costs) and other regular or extraordinary fees and expenses associated with the operation of a Fund;
- 4) Organization and offering expenses, including without limitation all expenses incurred in connection with and directly and indirectly related to the formation, qualification, and registration and/or exemption from qualification and registration of a Fund and its ownership interests or shares and the offering, distribution, and processing of the ownership interests or shares under applicable U.S. federal and state law and foreign law, including but not limited to legal, accounting, and auditing fees and expenses, printing and duplication expenses, mailing expenses, filing fees, solicitation and marketing expenses including travel and lodging expenses, and other related expenses; and
- 5) Transactional costs, including brokerage commissions and other compensation, which are expected to be substantial and will be obligations of the Funds and not of Hein Park.

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

Hein Park will receive annual performance fees (or allocations) from the Funds it manages. These performance fees, as noted above in "Fees and Compensation," may range from 15% to 20% of the cumulative net profit of an account during the relevant year reduced by a loss recovery account balance, if any. Hein Park, or the applicable board of directors or general partner(s) of a Fund, may waive, reduce or calculate differently the performance fee or allocation with respect to any investor, including principals, shareholders and employees of Hein Park, a general partner of a Fund or other affiliates.

Hein Park will face a conflict of interest to the extent that it manages a Fund for which it receives a performance fee at the same time as it manages one or more other Funds for which it receives no performance fee or a different level of performance fee. A performance fee arrangement generally entitles an investment adviser to additional

compensation based on the performance of the Fund bearing the performance fee. Hein Park may have an incentive to favor Funds or take increased investment risk on behalf of Funds for which it receives a larger performance fee because it could receive greater compensation from such Funds. In addition, due to the method of calculating the performance fees, such fees may be affected by factors within Hein Park's control (*i.e.*, a performance fee is typically dependent, in part, on the unrealized value of certain investments, which could provide an incentive for Hein Park to use higher valuations when calculating the performance fee).

Hein Park will put into place policies and procedures to mitigate the risk of these conflicts of interest and will at all times allocate trades and securities to the Funds in a fair and equitable manner. In addition, each Fund's financial statements, which are used as the basis upon which the performance fee is calculated, will be reported in conformity with U.S. Generally Accepted Accounting Principles and generally requires the fair valuation of investments.

## **Item 7 Types of Clients**

Hein Park will provide investment advisory services, as described above in response to Item 4, to the Funds. Each Fund will not be registered or be required to be registered under the 1940 Act. The securities of each Fund will not be registered or be required to be registered under the 1933 Act and will be privately placed to qualified investors in the United States and elsewhere.

A Fund generally will have a specified minimum investment as set out in the Fund's offering documents (such minimums will generally range from \$25,000,000 to \$100,000,000). A Fund's general partner or board of directors, in its sole discretion, may generally decline to accept the capital commitment of any prospective or current investor and/or may accept capital commitments of a lesser amount and expects to do so for officers, employees, certain former employees and friends and family of Hein Park and its affiliates.

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

### **A. Methods of Analysis**

Hein Park seeks to achieve each Fund's investment objective primarily through investments in credit and distressed credit assets and strategies. Hein Park intends to focus primarily on buying and selling credit instruments and related securities, including without limitation both performing and non-performing investment grade bonds, high yield bonds, leveraged loans, debtor-in-possession (or "DIP") loans and rescue financings, levered and post-reorganization equities, credit default swaps and other securities. No assurance can be given that the objective will be achieved and investment results may vary substantially over time.

Hein Park will source investment ideas organically through our proprietary and honed bottom up research process and from established buy and sell side relationships. The geographic focus of the strategy will be primarily in the United States.

To achieve its investment objective, a Fund relies on fundamental analysis of a company and its industry, competition, risks and opportunities related to the business as well as a deep understanding of the relevant securities and documentation in its capital structure. A Fund will seek to profit from opportunistically taking advantage of market dislocations and acquiring undervalued securities primarily in the credit space. Occasionally, a Fund will acquire control positions in certain tranches of securities in order to seek fundamental changes to the constituent company, its management team or balance sheet.

**Portfolio Composition.** A Fund's investments will broadly fit in the following sub-categories:

- *Performing Credit:* The Performing Credit strategy will purchase current pay credit instruments to generate current income on an attractive risk adjusted basis. This could include newly-issued loans or bonds that offer attractive value, or existing tranches of debt from established issuers where the market price has reached an attractive entry point for a Fund.

- *Stressed Credit:* The Stressed Credit strategy will seek to identify higher yielding credit assets that the market has fundamentally mispriced due to a misunderstanding of the company, industry, or related issues.
- *Distressed / Non-Performing:* The Distressed / Non-Performing strategy will seek to acquire large positions in the fulcrum securities of companies that are in either operational or financial transition. A Fund will seek to effect outcomes through a restructuring (in or out of court) or other corporate action that will maximize the value of our position.
- *Liquidations:* The Liquidation strategy will seek to acquire claims, bonds or similar securities in bankruptcy estates or trusts where the identified assets for sale exceed the value of the trading price of the securities and offer an attractive rate of return for a Fund.
- *Post-Reorganization / Special Situations:* A Fund will create or acquire the securities, including equity securities, of companies transitioning out of restructurings. This could include equity created through a debt exchange or new money exit financings, rights offerings, or preferred stock.

Investment Process. Hein Park's investment team has, collectively, over 40 years' experience identifying, sourcing, and executing credit investments. The team is comprised of generalist analysts who methodically examine investments across capital structures and various industries. Once a potential investment has been identified, the team will analyze financial statements, company and industry research, and may engage with the management team of both the company and its competition. On occasion, outside industry consultants are utilized in order to complete our diligence process. A significant amount of time is also spent on the legal analysis of a target company's relevant corporate documentation in order to identify the rights of the various creditors in the capital structure.

Once a position has been established, the team will engage with the company in an attempt to either improve its operating performance or proactively engage in a balance sheet restructuring. This could include proposing debt exchanges or new money financings that could improve the prospects of the company on an ongoing basis.

Concentration. Consistent with the investment team's past portfolio construction, Hein Park intends to run a concentrated portfolio. Hein Park believes that having large, concentrated positions and seeking to effect outcomes by helping to direct the most effective path forward, most often as it relates to the restructuring of a company (both in and out of court), is an important part of achieving the investment objective of a Fund.

Hedging. A Fund will utilize various strategies for hedging, and the hedging program will be comprised of both single name hedges and overall portfolio level hedging. These could include shorting cash bonds, buying credit default swaps, shorting equities and/or futures, and the purchase of put options on equities, commodities, or indices.

Leverage. While leverage is not integral to achieving the investment objective, a Fund will employ leverage opportunistically. Forms of leverage may include margin loans, total return swaps, and committed financing facilities among others.

Use of Cash and Cash Equivalents. A Fund may hold cash or invest in cash-equivalents, consisting primarily of obligations of the U.S. Government, its agencies or instrumentalities, commercial paper, reverse repurchase agreements, money market mutual funds, and interest-bearing deposits with financial institutions deemed by a Fund to be appropriately creditworthy.

Reliance on Judgment. Although Hein Park's investment efforts may be supported by fundamental research of issuers, sectors, markets and financial instruments, Hein Park is not required to conduct any minimum level of research or analysis in connection with making investment decisions for a Fund and instead may make investment decisions based upon other factors.

Flexibility. Hein Park may, from time to time in its sole discretion, refine or change its investment methods and strategies without prior notice to or approval by investors. The descriptions contained herein of specific strategies in which a Fund may engage should not be understood as in any way limiting the Fund's investment activities. A Fund may engage in investment strategies not described herein that Hein Park considers consistent with the Fund's overall

investment objective of capital appreciation or may cease engaging in or reduce its exposure to investment strategies described herein.

## **B. Material Risks**

### **Material risks of Hein Park's investment strategies:**

The investment strategies Hein Park will employ will subject a Fund to various risks, including the possible loss of principal. Investing in a Fund will involve the risk that the Fund may not achieve its investment objective. Investors in a Fund should be aware that all investments in securities involve a risk of loss of their investment, which they should be prepared to bear. Below is a discussion of the material risks of significant investment strategies and primary investments of the Funds. For more information about a Fund's risks, please see the offering materials for that Fund.

**Dependence on Key Personnel.** The success of the Funds depends in substantial part on the skill and expertise of Courtney Carson, other key personnel and other employees of the Hein Park. There can be no assurance that such persons will continue to be employed by the Hein Park through the length of an investor's investment in a Fund. The loss of key personnel could have a material adverse effect on a Fund.

**Risks of Investments in Securities Generally.** All securities investments risk the loss of capital. No guarantee or representation is made that a Fund's investment program will be successful. A investment program may involve, without limitation, risks associated with limited diversification, leverage, interest rates, currencies, volatility, tracking risks in hedged positions, security borrowing risks in short sales, credit deterioration or default risks, systems risks and other risks inherent in a activities. Certain investment techniques of the Funds can, in certain circumstances, magnify the impact of adverse market moves to which the Fund may be subject. In addition, a Fund's investment in securities may be materially affected by conditions in the financial markets and overall economic conditions occurring globally and in particular countries or markets where a Fund may invest its assets.

A Fund's methods of minimizing such risks may not accurately predict future risk exposures. Risk management techniques are based in part on the observation of historical market behavior, which may not predict market divergences that are larger than historical indicators. Also, information used to manage risks may not be accurate, complete or current, and such information may be misinterpreted.

**General Economic and Market Conditions.** Changes in general economic conditions may affect a Fund's activities. Interest rates, general levels of economic activity, the price of securities, the price of commodities, the rate of inflation and participation by other investors in the financial markets may affect the value and number of investments made by a Fund or considered for prospective investment. A Fund's investment strategy and the availability of investment opportunities relies, in part, on the continuation of certain trends and conditions observed in the market for various financial instruments and the larger financial markets and, in some cases, the improvement of such conditions. Consequently, a Fund may not be capable of, or successful at, preserving the value of its assets, generating positive investment returns or effectively managing risks. No assurance can be given that such conditions, trends or opportunities will arise or continue, as applicable.

Material changes and fluctuations in the economic environment, particularly of the type experienced beginning in 2008 that caused significant dislocations, illiquidity and volatility in the wider global economy, may affect a Fund's ability to make investments and the value of investments held by a Fund. Such marketplace events also may restrict the ability of the Fund to sell or liquidate investments at favorable times or for favorable prices.

**Valuation.** The assets of a Fund are valued based, to the extent possible, on prices obtained from independent third-party sources including exchanges. The value of those assets of a Fund for which a third-party price is not obtained will be valued based on other sources deemed reliable.

**Material Non-Public Information.** As part of its investment advisory activities for a Fund, Hein Park may come into possession of material non-public information of an issuer that it will be prohibited from using for the benefit of the Fund, Hein Park or the other Funds Hein Park manages. In such a circumstance, the Funds are



generally restricted in their ability to buy and sell the securities of such issuer, and a Fund may experience a loss in value in the related investment.

**Concentration and Lack of Diversification.** A Fund may not be managed with the goal of diversifying its investments broadly across issuers, industries, countries, regions or markets. It is expected that a significant percentage of the Funds' assets will be concentrated in a few issuers, and that there will be significant exposure to North American based issuers. Concentration of investments in a limited number of issuers or securities, industries or industry groups, or countries or regions can increase investment risk and portfolio volatility. As a result of this lack of diversification, a significant loss in any one position may have a material adverse effect on the Funds' performance.

**Short Sales.** A short sale involves the sale of a security that a Fund does not own in the expectation of purchasing the same security (or a security exchangeable therefor) at a later date at a lower price. To make delivery to the buyer, a Fund must borrow the security, and the Fund is obligated to return the security to the lender, which is accomplished by a later purchase of the security by the Fund. In some cases, the lender may rescind the loan of securities, and cause the borrower to repurchase shares at inflated prices, resulting in a loss. When a Fund makes a short sale in the United States, it must leave the proceeds thereof with the broker and it must also deposit with the broker an amount of cash or marketable securities sufficient under current margin regulations to collateralize its obligation to replace the borrowed securities that have been sold. If short sales are effected on a foreign exchange, such transactions will be governed by local law. A short sale involves the risk of a theoretically unlimited increase in the market price of the security. The extent to which a Fund will engage in short sales depends upon Hein Park's investment strategy and perception of market direction.

**Restrictions on Short Selling.** Many regulators, including the SEC and the U.K. Financial Services Authority, have imposed restrictions and reporting requirements on short selling. These restrictions and reporting requirements may prevent a Fund from successfully implementing its investment strategy and provide transparency to Hein Park's competitors as to its positions, thereby having a detrimental impact on a short sale's returns.

**Credit Risk.** One of the fundamental risks associated with Hein Park's investment strategy is credit risk, which is the risk that an issuer may be unable to make principal and interest payments on its outstanding debt obligations when due. A Fund's return to investors would be adversely impacted if an issuer of debt securities in that a Fund invests becomes unable to make such payments when due. Certain investments may have an interest-only payment schedule, with the principal amount remaining outstanding and at risk until the maturity of the investment. In such cases, a portfolio company's ability to repay the principal of an investment may be dependent upon the ability to refinance or a liquidity event or the long-term success of the company, the occurrence of which is uncertain.

**Creditors Committee and/or Board Participation.** In connection with some of its investments, a Fund may, but is not obligated to, seek representation on official and unofficial creditors committees and/or boards (or comparable governing bodies) of the portfolio companies. While such representation may enable Hein Park to enhance the value of the investments, it may also prevent a Fund from disposing of the investments in a timely and profitable manner, because serving on a creditors committee increases the possibility that a Fund will be deemed an "insider" or a "fiduciary" of the portfolio company. If Hein Park concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to a Fund, it may resign from that committee or group, and a Fund may not realize the benefits, if any, of participation on the committee or group. If representation on a creditors committee or board causes a Fund or Hein Park to be deemed an affiliate or related party of the portfolio company, the securities of such portfolio company held by such Fund may become restricted securities, which are not freely tradable. Participation on a creditors' committee and/or board representation may also subject a Fund to additional liability to which they would not otherwise be subject as an ordinary course, third-party investor. The Funds will indemnify Hein Park or any other person designated by Hein Park for claims arising from such board and/or committee representation, which could adversely affect the return on the respective Fund's investments. Hein Park will attempt to balance the advantages and disadvantages of such representation when deciding whether and how to exercise rights with respect to such portfolio companies, but changes in circumstances could produce adverse consequences in particular situations.

**Non-U.S. Investments.** There are additional risks associated with non-U.S. investments, including the following: the unpredictability of international trade patterns; the possibility of governmental actions adverse to

business generally or to non-U.S. investors in particular; changes in taxation, fiscal and monetary policies or imposition or modification of controls on non-U.S. currency exchange, repatriation of proceeds, or non-U.S. investment; the imposition or increase of withholding taxes on income and gains; price volatility; absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation which may result in lower quality information being available and less developed corporate laws regarding fiduciary duties and the protection of investors; governmental influence on the national and local economies; and fluctuations in currency exchange rates. In addition, collateral that is located outside of the United States may be subject to various creditor-protection laws, depending on the country and the obligor, which laws may differ substantially from those applicable in the United States. Repatriation of investment income, capital and the proceeds from sales of investments by non-U.S. investors may require governmental registration and approval in some countries. A Fund could be adversely affected by delays in or a refusal to grant required governmental registration or approval for any such proposed repatriation.

Certain non-U.S. countries have experienced substantial, and in some periods extremely high, rates of inflation for many years. Inflation and rapid fluctuations in inflation rates have had and may continue to have very negative effects on the economies and financing markets (both public and private) of certain countries in which a Fund may invest. There can be no assurance that high rates of inflation outside the United States will not have a material adverse effect on the investments of a Fund.

In addition, non-U.S. investments may be denominated in currencies other than the U.S. Dollar, and hence the value of such investments will depend in part on the relative strength of the U.S. Dollar. A Fund may be affected favorably or unfavorably by currency control regulations or changes in the exchange rate between non-U.S. currencies and the U.S. Dollar. In addition, a Fund may incur costs in connection with conversions between various currencies. A Fund may, but is not obligated to, engage in currency hedging operations. There can be no assurance as to the success of any hedging operations that Hein Park may implement.

**Leverage; Interest Rates.** A Fund may borrow on a short-term basis for cash management purposes and the level of interest rates, generally, and the rates at which such Fund can borrow, in particular, may therefore affect the performance results of the Fund.

**Hedging Transactions.** A Fund may utilize financial instruments such as futures, options, swaps, forward contracts and other derivatives both for investment purposes and risk management purposes. Hedging against a decline in the value of a portfolio investment or market indices generally does not eliminate fluctuations in the values of portfolio investments or prevent losses if the values of such investments decline, but establishes other positions designed to gain from those same developments, thus moderating the decline in the portfolio investments' value. Such hedging transactions also limit the opportunity for gain if the value of the portfolio investments should increase. In addition, various investments within the strategy may involve hedges that are insufficient to offset anticipated market price changes. Hein Park may utilize hedges, or choose not to hedge, based on judgments about economic or other factors that prove to be incorrect.

**Highly Volatile Markets.** The prices of derivative instruments, including options prices, are highly volatile. Price movements of forward contracts and other derivative contracts in which a Fund's 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. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies and financial instrument options. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. A Fund may be subject to the risk of the failure of the exchanges on which its positions trade or of their clearinghouses.

**Competition; Availability of Investments.** Certain markets and strategies in which a Fund may invest are extremely competitive for attractive investment opportunities. There can be no assurance that a Fund will be able to identify or successfully pursue attractive investment opportunities in such environments. Among other factors, competition for suitable investments from other pooled investment vehicles, the public equity markets and other investors may reduce the availability of investment opportunities.

**Execution of Orders.** A Fund's investment strategy depends on its ability to establish and maintain an overall market position in a combination of financial instruments selected by Hein Park. A Fund's investment orders

may not be executed in a timely and efficient manner because of various circumstances, including, without limitation, systems failures or human error attributable to Hein Park, brokers, agents or other service providers. In such event, a Fund might only be able to acquire 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, a Fund would not be able to achieve the market position selected by Hein Park, and might incur a loss in liquidating its position. In addition, a Fund may rely on electronic execution systems, and such systems may be subject to failure, causing the interruption of investment orders made on behalf of the Fund.

#### **Material risks of securities and other instruments:**

Hein Park does not recommend any particular type of security; rather, Hein Park recommends securities and other instruments based on the investment objectives and strategies of the Fund.

**General Credit Risks of Loans.** While loans originated and/or purchased by a Fund are generally intended to be over-collateralized or characterized by the Hein Park as having attractive loan-to-value ratios, a Fund may be exposed to losses resulting from default and foreclosure. Therefore, the value of the underlying collateral, the creditworthiness of the borrower and the priority of the lien are each of great importance. Borrowers may include individuals, less established companies and companies with poor cash flow or other poor financial metrics. These types of borrowers tend to be more vulnerable to financial failure, and such failure likely would cause a Fund's investments to lose substantial value. A Fund cannot guarantee the adequacy of the protection of the Fund's interests, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. The specific collateral used to secure a loan may decline in value or become illiquid, which would adversely affect the loan's value. Furthermore, a Fund cannot assure that claims may not be asserted that might interfere with enforcement of the Fund's rights. In the event of a foreclosure, the Fund may assume direct ownership of the underlying asset. The liquidation proceeds upon sale of such asset may not satisfy the entire outstanding balance of principal and interest on the loan, resulting in a loss to the Fund. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss.

**Lower Credit Quality Loans.** Generally, there are no restrictions on the credit quality of a Fund's loans. Lower credit quality loans may be deemed to have substantial vulnerability to default in payment of interest and/or principal. Certain of the loans may have large uncertainties or major risk exposures to adverse conditions, and may be considered to be predominantly speculative. Generally, such loans offer a higher return potential than better-quality loans, but involve greater volatility of price and greater risk of loss of income and principal. The market values of certain of these loans also tend to be more sensitive to changes in economic conditions than better-quality loans.

Senior loans, which primarily include senior floating rate loans, are typically of below investment grade quality and have below investment grade credit ratings, which ratings are associated with securities having high risk, speculative characteristics. Senior loans are generally secured with specific collateral and have a claim on the assets and/or stock of the borrower, as compared to subordinated debtholders and stockholders of the borrower, but there can be no assurance that the liquidation of any collateral securing a loan would satisfy the borrower's obligation in the event of non-payment of scheduled interest or principal payments, or that such collateral could be readily liquidated. In the event a loan is not rated, it is likely to be the equivalent in quality to a lower rated investment. The amount of public information available with respect to loans may be less extensive than that available for registered or exchange listed securities. Due to the lack of centralized information and trading, the valuation of loans may carry more risk than exchange-listed instruments. Hein Park may rely in whole or in part on analyses performed by others. Although the overall size and number of participants in the market for senior loans has grown, senior loans continue to trade in an unregulated inter-dealer or inter-bank secondary market.

Purchases and sales of senior loans are generally subject to contractual restrictions that must be satisfied before a senior loan can be bought or sold. These restrictions may impede a Fund's ability to buy or sell senior loans, may negatively impact the transaction price and/or may result in delayed settlement of senior loan transactions or other illiquidity of such investments. Junior loans include secured and unsecured subordinated loans, second lien loans and subordinated bridge loans. Junior loans are subject to the same general risks inherent to any loan

investment. Due to their lower place in the borrower's capital structure and possible unsecured status, junior loans involve a higher degree of overall risk than senior loans of the same borrower. In addition, loan investments may not be considered securities for all regulatory purposes and purchasers of investments, such as a Fund, may not be entitled to rely on the anti-fraud protections of the federal securities laws as compared to other Fund investments.

**Investments in Unsecured Debt.** A Fund may invest a portion of its assets in unsecured indebtedness, whereas all or a significant portion of the issuer's senior indebtedness may be secured. In such situations, the ability of the Fund to influence a portfolio company's affairs, especially during periods of financial distress or following an insolvency, is likely to be substantially less than that of senior creditors.

**Nature of Mezzanine and Other Subordinated Investments.** Mezzanine and other subordinated debt investments involve a high degree of risk with no certainty of any return of capital. Although mezzanine debt obligations are senior to common stock and other equity securities in the capital structure, they may be subordinated to large amounts of senior debt and are often unsecured. Under the terms of typical subordination agreements, senior creditors may be able to block the acceleration of the subordinated debt or the exercise by holders of subordinated debt of other rights they may have as creditors. In addition, subordinated loans may not always be protected by financial covenants or limitations upon additional indebtedness, may have limited liquidity and may not be rated by a credit rating agency. The ability of the subordinated debt holders to influence a company's affairs, especially during periods of financial distress or following an insolvency, is likely to be substantially less than that of senior creditors. For example, under terms of subordination agreements, senior creditors are typically able to block the acceleration of the mezzanine debt or other exercises by the subordinated creditors of their rights. Accordingly, a Fund may not be able to take the steps necessary to protect its investments in a timely manner or at all.

If a portfolio company becomes subject to insolvency proceedings in any jurisdiction, the rights of holders of mezzanine and subordinated debt may be adversely affected. Such proceedings and related laws and remedies may vary substantially from jurisdiction to jurisdiction, may create the right of such portfolio company to avoid certain unfavorable contracts or obligations and may result in significant delay and/or limitations on repayment of amounts owed to a Fund. With respect to a Fund's investments in the form of subordinated debt instruments, upon any distribution to the relevant borrower's creditors in a bankruptcy, liquidation or reorganization or similar proceeding, the holders of such borrower's senior and/or secured indebtedness (to the extent of the collateral securing such obligation) will be entitled to be paid in full before any payment may be made on such Fund's investment. In the event of a bankruptcy, liquidation or reorganization or similar proceeding relating to such a borrower, a Fund will typically participate with all other holders of such borrower's indebtedness in the assets remaining after the borrower has paid all of its senior and/or secured indebtedness (to the extent of the collateral securing such obligation). Such borrower may not have sufficient funds to pay all of its creditors and a Fund may receive nothing, or less, ratably, than the holders of senior and/or secured indebtedness of such borrower or the holders of indebtedness that is not subordinated.

A Fund may make equity investments in connection with its mezzanine investments. Certain mezzanine investments may be convertible, by the terms thereof, into equity securities after a triggering event. These equity securities will generally be the most junior in what typically will be a complex capital structure, and thus subject to the greatest risk of loss. Depending on fluctuations of the equity markets and other factors, warrants and other equity securities may become worthless.

**Distressed and High-Yield Securities.** Investments in the securities of financially troubled companies may involve substantial financial and business risks, which are often heightened by an inability to obtain reliable information about the companies and their true financial condition. Investments in companies that are or become involved in bankruptcy or reorganization proceedings also may be adversely affected by the laws of one or more jurisdictions relating to, among other things, "fraudulent conveyances" (as further described below) and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. There is always the risk (both in and out of bankruptcy) that a reorganization will be unsuccessful (due to, for example, failure to obtain requisite approvals), or significantly delayed (for example, until various liabilities, actual or contingent, have been satisfied or negotiated) or will result in a distribution of cash or new securities the value of which is less than the purchase price to a Fund of the securities in respect of which such distribution was made. In addition, the markets for distressed and high-

yield securities are subject to abrupt and erratic price movements and excessive price volatility, and are frequently illiquid. Distressed securities investing requires active monitoring and may, at times, require participation in bankruptcy or reorganization proceedings by Hein Park and/or a Fund.

Hein Park and/or a Fund may be participants in civil proceedings related to distressed investments. The costs of any such proceedings, including settlements, judgments and indemnification obligations, will be deemed investment expenses and will be borne directly or indirectly by a Fund.

**Operating Improvements / Investments in Restructuring.** In some cases, the success of a Fund's investment strategy will depend, in part, on the ability of Hein Park or the management of a portfolio company to restructure and implement improvements in the operations of a portfolio company. The activity of identifying and implementing restructuring programs and operating improvements at portfolio companies entails a high degree of uncertainty. There can be no assurance that such restructuring programs and improvements will be successfully identified or implemented. Furthermore, investments in restructurings may involve portfolio companies or projects experiencing, or that are expected to experience, financial difficulties. Such financial difficulties may never be overcome. Such investments could subject a Fund to certain additional potential liabilities that may exceed the value of the Fund's original investment therein. For example, a lender who has inappropriately exercised control over the management and policies of a debtor may have its claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. In addition, payments to a Fund may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

**Risks of Bridge Financing.** The Funds are permitted to make bridge investments, subject to certain limitations. If a Fund makes an investment in a single transaction with the intent of refinancing the portion of that investment consisting of bridge investments, there is a risk that the Fund will be unable to successfully complete the refinancing. This could lead to a Fund holding an investment in a debt security longer than planned.

**Prepayment Risk.** A Fund may invest in debt securities which permit borrowers to voluntarily prepay loans at any time, either with no or a nominal prepayment premium. The price paid by a Fund for debt securities, the yield a Fund expects to receive from such securities and the average life of the securities are each based on a number of factors, including the anticipated rate of prepayment of the underlying assets. In a period of declining interest rates, borrowers may prepay the underlying assets more quickly than anticipated, thereby reducing the yield to maturity and the average life of the asset-backed securities. Moreover, when a Fund reinvests the proceeds of a prepayment in these circumstances, it will likely receive a rate of interest that is lower than the rate on the security that was prepaid. To the extent that a Fund purchases debt securities at a premium, prepayments may result in a loss to the extent of the premium paid. If a Fund buys such securities at a discount, both scheduled payments and unscheduled prepayments will increase current and total returns and unscheduled prepayments will also accelerate the recognition of income which, when distributed to shareholders, will be taxable as ordinary income. In a period of rising interest rates, prepayments of the underlying assets may occur at a slower than expected rate, creating maturity and extension risk. This particular risk may effectively change a security that was considered short or intermediate-term at the time of purchase into a longer term security. Since the value of longer-term securities generally fluctuates more widely in response to changes in interest rates than shorter term securities, maturity extension risk could increase the volatility of such securities. When interest rates decline, the value of an asset-backed security with prepayment features may not increase as much as that of other fixed-income securities, and, as noted above, changes in market rates of interest may accelerate or retard prepayments and thus affect maturities.

**Sale or Assignment of Originated Loans.** In cases where a Fund intends to assign or sell participations in loans that it originates but fails to do so, a Fund will be forced to hold the excess interest in such loans for an indeterminate period of time, which could subject a Fund to greater risk and limit the diversity of a Fund's portfolio. In addition, any decline in the value of such an originated loan prior to transfer will likely be borne by the Fund.

**Nature of Investment in Secured Loans.** A Fund may invest in secured loans. The factors affecting an issuer's secured loans, and its overall capital structure, are complex. Not all secured loans have priority over all other unsecured debt of an issuer. For example, some secured loans may involve liens only on specified assets of an issuer. Furthermore, in the event of a filing by an issuer under chapter 11 of the U.S. Bankruptcy Code,

the U.S. Bankruptcy Code authorizes the issuer to use a creditor's collateral and to obtain additional credit by grant of a priority lien on its property, senior even to liens that were first in priority prior to the filing, as long as the issuer provides "adequate protection" (as determined by the presiding bankruptcy judge) that may consist of the grant of replacement or additional liens or the making of cash payments to the affected secured creditor. The imposition of priority liens on a Fund's collateral would adversely affect the priority of the liens and claims held by the Fund and could adversely affect the Fund's recovery on its debt investments.

Although a Fund may make investments that Hein Park believes are secured by specific collateral, there can be no assurance that the liquidation of any such collateral would satisfy the borrower's obligation in the event of non-payment of scheduled interest or principal payments with respect to such investment, or that such collateral could be readily liquidated. In addition, in the event of bankruptcy of a borrower, a Fund could experience delays or limitations with respect to its ability to realize the benefits of the collateral securing an investment. Under certain circumstances, collateral securing an investment may be released without the consent of the Fund. Moreover, a Fund's investments in secured debt may be unperfected for a variety of reasons, including the failure to make required filings by lenders and, as a result, the Fund may not have priority over other creditors as anticipated. Underlying assets are subject to credit, liquidity and interest rate risk. Although the amount and characteristics of the underlying assets selected as collateral may allow the Fund to withstand certain assumed deficiencies in payments occasioned by the borrower's default, if any deficiencies exceed such assumed levels or if underlying assets are sold, it is possible that the proceeds of such sale or disposition will not be equal to the amount of principal and interest owing to the Fund in respect of its investment. In addition, many secured credit facilities contain accordion provisions that allow for increased borrowing under such facilities, which would dilute the value of the collateral securing such borrowing and increase the risk that such loans would be undersecured.

Senior secured credit facilities are generally syndicated to a number of different financial market participants. The documentation governing the facilities typically requires either a majority consent or, in certain cases, unanimous approval for certain actions in respect of the credit, such as waivers, amendments or the exercise of remedies. Under the U.S. Bankruptcy Code, voting to accept or reject the terms of a restructuring of a credit pursuant to a chapter 11 plan of reorganization is done on a class basis. As a result of these voting regimes, a Fund may not have the ability to control decisions in respect of certain amendment, waiver, exercise of remedies, restructuring or reorganization of debts owed to the Fund.

**Second-Lien Debt.** A Fund's investments in second-lien loans will entail risks, including (i) the subordination of the liens securing the Fund's claims to a senior lien in terms of the coverage and recovery of the collateral, (ii) the prohibition of, or limitation on, the right to foreclose on a second lien or exercise other rights as a second-lien holder (including unsecured creditors' rights), and (iii) the inability of the Fund to make certain decisions with respect to the issuer pursuant to any inter-creditor or similar arrangement with the first lien lender. In certain cases, therefore, no recovery may be available from a defaulted second-lien loan. The level of risk associated with investments in second-lien loans increases to the extent such investments are loans of distressed or below investment grade companies.

If an issuer defaults on a Fund's second lien loan or debt senior to the Fund's loan, or in the event of an issuer bankruptcy, the Fund's second lien loan will be satisfied only after the senior debt has been repaid in full. As a result, a Fund may not recover some or all of its investment. In addition, second lien loans may have higher loan-to-value ratios than conventional loans, resulting in less equity in the collateral and increasing the risk of loss of principal.

**Covenant-Lite First Lien Loans.** Although Hein Park generally expects the debt documentation of many of a Fund's debt investments to include both incurrence and maintenance-based covenants, there may be instances in which a Fund invests in covenant-lite first-lien loans, which may lack financial covenants mandating compliance with one or more financial ratios or tests, and may have less restrictive non-financial covenants. An investment by a Fund in a covenant-lite first-lien loan may potentially hinder the ability to reprice credit risk associated with the investment and reduce the ability to restructure a problematic loan and mitigate potential loss.

**Bank Loans and Participations.** A Fund's investment program may include investments in bank loans, which may be acquired through assignment or participations. While bank loans, participations, and private investments structured as loans may result in significant financial returns to a Fund, these types of financing are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent

conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of a Fund to directly enforce compliance by the obligor with the terms of the loan or credit agreement or other instrument evidencing such loan obligation, or enforce any rights of set-off against the obligor. While loan investments made and/or purchased by a Fund are generally intended to be over-collateralized or characterized by Hein Park as having attractive loan-to-value ratios, Hein Park cannot guarantee the adequacy of the protection of the Fund's interests, including the validity or enforceability of the loan investment and the maintenance of the anticipated priority and perfection of the applicable security interests. In the event of a foreclosure, a Fund may assume direct ownership of the underlying asset. The liquidation proceeds upon sale of such asset may not satisfy the entire outstanding balance of principal and interest, resulting in a loss to the Fund. Such loan investments may involve companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings.

Furthermore, in purchasing a participation, a Fund may not directly benefit from the collateral supporting the loan obligation in which it has purchased the participation. As a result, the Fund would assume the credit risk of both the obligor and the selling institution, which would remain the legal owner of record of the applicable loan. Participations are typically sold strictly without recourse to the selling institution, and the selling institution will generally make no representations or warranties about the underlying loan, the portfolio companies, the terms of the loans or any collateral securing the loans. Certain loans have restrictions on assignments and participations which may negatively impact a Fund's ability to exit from all or part of its investment in a loan. In analyzing each private lending opportunity, bank loan or participation Hein Park would compare the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by a Fund.

Bank loans may not be considered "securities" for purposes of the 1933 Act, as amended, and certain other U.S. federal securities laws, and, as a purchaser of bank loans and participations, a Fund may not be entitled to rely on the anti-fraud and other protections of such laws.

**Unfunded Loans.** A Fund's investments may include loan commitments that are unfunded at the time of investment. A loan commitment is a written agreement in which the lender commits itself to make a loan or loans up to a specified amount within a specified time period. The loan commitment sets out the terms and conditions of the lender's obligation to make the loans. The portion of the amount committed by a lender under a loan commitment that the borrower has not drawn down is referred to as "unfunded." A lender typically is obligated to advance the unfunded amount of a loan commitment at the borrower's request, subject to certain conditions regarding the creditworthiness of the borrower. Borrowers with deteriorating creditworthiness may continue to satisfy their contractual conditions and therefore be eligible to borrow at times when the lender might prefer not to lend. In addition, a lender may have assumptions as to when a company in which a Fund invests may draw on an unfunded loan commitment when the lender enters into the commitment. If the borrower does not draw as expected, the commitment may not prove as attractive an investment as originally anticipated. Further, any failure to advance requested funds to a company in which a Fund invests could result in possible assertions of offsets against amounts previously lent.

**Marketplace/Peer-to-Peer Lending.** A Fund may gain direct and indirect exposure to marketplace/peer-to-peer lending strategies. Investments in marketplace/peer-to-peer lending platforms may be unsecured obligations of those lending platforms and accordingly are subject to the risks of those platforms' bankruptcy. A Fund likely will not have any security interest in the underlying loans of these platforms, and such loans likely will not be secured by any collateral or guaranteed or insured by any governmental agency or instrumentality or any third party. Hein Park will depend on the marketplace/peer-to-peer lending platforms to verify the identity of borrowers, their credit histories, and in some cases, their employment status and income. Hein Park will not be in a position to monitor those verification procedures and thus is subject to the risk that those procedures are, or over time become, inadequate to prevent fraud. Marketplace/peer-to-peer lending models are fairly new, and their compliance with various aspects of regulatory regimes, including those applicable to consumer credit transactions and small businesses among others, is untested. A federal or state regulator could take a position that a marketplace/peer-to-peer lending platform's activities (and perhaps the activities of certain market participants who conduct business with such platforms) do not comply with applicable law, and any such regulatory action could adversely affect a Fund's marketplace/peer-to-peer lending investments. Marketplace/peer-to-peer lending platforms rely on various parties to execute their business

models. The platforms could be adversely affected if any such party ceases to provide those services, which would, in turn, adversely affect a Fund. The platforms also rely heavily on technology and their technological capabilities generally. The platforms are potentially subject to significant operational and business impairment if their technologies malfunction or are subject to cyberattack or data/privacy breaches (especially with respect to underlying borrower information). Such events may erode confidence in the platforms and thus create significant business risks. Additionally, entities through which Hein Park may access marketplace/peer-to-peer lending strategies may also be subject to operational impairment or regulatory challenges or may otherwise find their business models under pressure, which may in each case adversely affect a Fund.

**Litigation Finance.** Litigating and settling private lawsuits can be a very lengthy and expensive process. Parties to litigation and/or their counsel are in need of immediate funds for a variety of reasons. A Fund may enter into arrangements with a plaintiff or a law firm in order to provide capital to fund litigation in exchange for a portion of the award or settlement. Such arrangements may relate to a single case or a portfolio of cases. Generally, the recipient of such financing is not obligated to make any payment unless and until litigation proceeds are actually received by the litigant or their counsel. If the matters fails to be resolved, or is resolved adversely to the plaintiff, there is generally no obligation to pay anything and a Fund would suffer a complete loss of the capital invested. Even if the outcome of the litigation is favorable, a Fund may still suffer at least a partial loss. For example, the litigant's recovery may not be large enough to satisfy a Fund's entire investment amount. In addition, a Fund may not possess seniority over other investors or lien-holders, and as a result such Fund may lose out on its entire investment despite other similarly situated investors making a profit. A Fund may also not recover the entirety of its investments if the defendant to the litigation is unable to pay the full amount of the judgement. Alternatively, A Fund may enter into arrangements with insurance companies or reinsurance companies in an attempt to capitalize on outcomes relating to the obligations of such insurance and reinsurance companies during the life of a case.

**Lender Liability Considerations and Equitable Subordination.** In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories (collectively termed "lender liability"). Generally, lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in a creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. Because of the nature of certain of the Funds' investments, a Fund could be subject to allegations of lender liability.

In addition, under common law principles that in some cases form the basis for lender liability claims, if a lending institution (a) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (d) uses its influence as a stockholder to dominate or control a borrower to the detriment of other creditors of such borrower, a court may subordinate the claim of the offending lending institution to the claims of the disadvantaged creditor or creditors, which is referred to as "equitable subordination." A Fund may make investments that would subject it to claims from creditors of an obligor that such Fund's investments issued by such obligor that are held by such Fund should be equitably subordinated. A significant number of a Fund's investments may involve investments in which such Fund would not be the lead creditor. It is, accordingly, possible that lender liability or equitable subordination claims affecting the investments could arise without the direct involvement of a Fund.

**Ability to Originate and Purchase Loans on Advantageous Terms; Competition and Supply.** A Fund's success will depend, in part, on the ability of Hein Park to originate and purchase loans on advantageous terms. In originating and purchasing loans, Hein Park competes with a broad spectrum of lenders, many of which have substantially greater financial resources and are more well-known than the Hein Park. Increased competition for, or a diminishment in the available supply of, qualifying loans could result in lower yields on such loans, which could reduce returns to investors.

**Fraud.** Of paramount concern in originating and purchasing loans is the possibility of material misrepresentation or omission on the part of the borrower. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of a Fund to perfect or effectuate a lien on the collateral securing the loan. Hein Park will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee such accuracy or



completeness. Under certain circumstances, payments to a Fund may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

**Mortgage-Backed Securities.** A Fund may invest in mortgage-backed securities. Residential mortgage-backed securities evidence interests in or are secured by pools of residential mortgage loans. Commercial mortgage-backed securities evidence interests in or are secured by a single commercial mortgage loan or a pool of commercial mortgage loans. Accordingly, the mortgage-backed securities in which a Fund may invest will be subject to all of the risks of the underlying mortgage loans.

**Residential Mortgage-Backed Securities.** Residential mortgage-backed securities represent interests in pools of residential mortgage loans secured by one- to four-family residential mortgage loans. Such loans may be prepaid at any time. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity, although such loans may be securitized by government agencies, in which case the securities issued would be guaranteed. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the area where the related mortgaged property is located, the borrower's equity in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process and may involve significant expenses.

Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited. At any one time, a portfolio of residential mortgage-backed securities may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations. In addition, the residential mortgage loans may include so-called "jumbo" mortgage loans, having original principal balances that are higher than is generally the case for residential mortgage loans. As a result, if a Fund invests in residential mortgage-backed securities, it may experience increased losses.

Residential mortgage loans may be prepaid at any time. Prepayments will be influenced by the prepayment provisions of the related mortgage notes and may also be affected by a variety of economic, geographic and other factors, including the difference between the interest rates on the underlying residential mortgage loans (giving consideration to the cost of refinancing) and prevailing mortgage rates and the availability of refinancing. In general, if prevailing interest rates fall significantly below the interest rates on the related residential mortgage loans, the rate of prepayment on the underlying residential mortgage loans would be expected to increase. Conversely, if prevailing interest rates rise to a level significantly above the interest rates on the related mortgages, the rate of prepayment would be expected to decrease. Prepayments could reduce the yield received on the related issue of residential mortgage-backed securities.

Certain mortgage loans may be of sub-prime credit quality (i.e., do not meet the customary credit standards of Fannie Mae and Freddie Mac). Originators of loans make sub-prime mortgage loans to borrowers that typically have limited access to traditional mortgage financing for a variety of reasons, including impaired or limited past credit history, lower credit scores, high loan-to-value ratios or high debt-to-income ratios. As a result of these factors, delinquencies and liquidation proceedings are more likely with sub-prime mortgage loans than with mortgage loans that satisfy customary credit standards.

Residential mortgage-backed securities may contain certain credit enhancement features intended to enhance the likelihood that holders of such securities will receive regular payments of interest and principal. If delinquencies or defaults occur on the mortgage loans underlying such residential mortgage-backed securities, neither the related servicers nor any other entities will advance scheduled monthly payments of interest and principal on delinquent or defaulted mortgage loans if such advances are not likely to be recovered within those transactions. There can be no assurance that the credit enhancement, if any, applicable to residential mortgage-backed securities will adequately cover any shortfalls in cash available to make payments on such residential mortgage-backed securities as a result of such delinquencies or defaults. If a Fund invests in residential mortgage-backed securities, it may sustain substantial losses as a result of defaults and delinquent payments on the underlying mortgage loans.

**Commercial Mortgage-Backed Securities.** Commercial mortgage loans are secured by multi-family or commercial property and are subject to risks of delinquency and foreclosure and risks of loss that are greater than similar risks associated with loans made on the security of single-family residential property. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. As a result, income generation will affect both the likelihood of default and the severity of losses with respect to a commercial mortgage loan. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of an income-producing property can be affected by, among other things, tenant mix, success of tenant businesses, property management decisions, property location and condition, competition from comparable types of properties, changes in laws that increase operating expense or limit rents that may be charged, any need to address environmental contamination at the property, the occurrence of any uninsured casualty at the property, changes in national, regional or local economic conditions and/or specific industry segments, declines in regional or local real estate values, declines in regional or local rental or occupancy rates, increases in interest rates, real estate tax rates and other operating expenses, changes in governmental rules, regulations and fiscal policies, including environmental legislation, acts of God, terrorism, social unrest and civil disturbances.

At any one time, a portfolio of commercial mortgage-backed securities may be backed by commercial mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the commercial mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations.

Certain of the commercial mortgage loans underlying the collateral debt securities may bear interest at adjustable rates based on the London Interbank Offered Rate ("LIBOR") for one-month dollar deposits or other established interest indices. Accordingly, debt service for any such commercial mortgage loan will increase as interest rates rise. In contrast, rental and other income on the related mortgaged properties is not expected to rise significantly as interest rates rise. Accordingly, debt service coverage ratios of the underlying floating rate commercial mortgage loans generally will be adversely affected by rising interest rates and a borrower's ability to make all payments due on such floating rate commercial mortgage loans may be adversely affected.

Mortgage loans underlying a commercial mortgage-backed security issue may provide for no amortization of principal or may provide for amortization based on a schedule substantially longer than the maturity of the mortgage loan, resulting in a "balloon" payment due at maturity. If the underlying mortgage borrower experiences business problems, or other factors limit refinancing alternatives, such balloon payment mortgages are likely to experience payment delays or even default. As a result, the related issue of commercial mortgage-backed securities could experience delays in cash flow and losses.

**LIBOR and EURIBOR Reform.** The LIBOR rate is intended to represent the rate at which contributing banks may obtain short-term borrowings from each other in the London interbank market. The regulatory authority that oversees financial services firms and financial markets in the UK has announced that, after the end of 2021, it would no longer persuade or compel contributing banks to make rate submissions for purposes of determining the LIBOR rate. As a result, it is possible that commencing in 2022, LIBOR may no longer be available or no longer deemed an appropriate reference rate upon which to determine the interest rate on certain loans, notes and instruments comprising part of a Fund's portfolio. In light of this eventuality, public and private sector industry initiatives are currently underway to identify new or alternative reference rates to be used in place of LIBOR. There is no assurance that the composition or characteristics of any such alternative reference rate will be similar to or produce the same value or economic equivalence as LIBOR or that it will have the same volume or liquidity as did LIBOR prior to its discontinuance or unavailability, which may affect the value or liquidity or return on certain of a Fund's investments.

**Asset-Backed Securities.** Asset-backed securities are securities backed by assets other than mortgages, mortgage-backed securities or other mortgage-related assets. The investment characteristics of asset-backed securities differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that principal may be prepaid at any time because the underlying assets generally may be prepaid at any time. Credit card receivables, automobile, boat and recreational vehicle installment sales contracts, commercial and industrial bank loans, home equity loans and

lines of credit, manufactured housing loans, corporate debt securities and various types of accounts receivable commonly support asset-backed securities. However, there can be no assurance that innovation in the relevant markets will not transform asset-backed securities by adding new classes of assets, new structures or other features not now familiar in the asset-backed markets. Asset-backed securities present certain risks that are not presented by mortgage-backed securities. Primarily, asset-backed securities do not have the benefit of the same security interest in the related collateral. Credit card receivables, for example, are generally unsecured and the debtors are entitled to the protection of a number of federal and state consumer loan laws, many of which give such debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. Most issuers of automobile receivables permit the servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related automobile receivables. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the automobile receivables may not have a proper security interest in all of the obligations backing such receivables. Therefore, there is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. The risk of investing in asset-backed securities is ultimately dependent upon payment of consumer loans by the debtor.

The collateral supporting asset-backed securities is of shorter maturity than mortgage loans and is less likely to experience substantial prepayments. Asset-backed securities are often backed by a pool of assets representing the obligations of a number of different parties and may use credit enhancement techniques such as letters of credit, guarantees or preference rights. The value of an asset-backed security is affected by changes in the market's perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement. The frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to defaults and foreclosures) occur on loans underlying asset-backed securities will be affected by a variety of factors including the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors.

In general, "premium" securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster-than-anticipated prepayments, and "discount" securities (securities whose principal or par amounts exceed their market values) are adversely affected by slower-than-anticipated prepayments. Because many asset-backed securities will be discount securities when interest rates are high and will be premium securities when interest rates are low, these asset-backed securities may be adversely affected by changes in prepayments in any interest rate environment. The adverse effects of prepayments may impact the Hein Park's Funds in two ways. First, particular investments may experience outright losses, as in the case of an interest-only security in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that Hein Park may have constructed for these investments, resulting in a loss to a Fund's overall portfolio. In particular, prepayments (at par) may limit the potential upside of many asset-backed securities to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

**Structured Credit Instruments.** A Fund may invest in structured credit instruments, including collateralized debt obligations, collateralized loan obligations, collateralized bond obligations, collateralized mortgage obligations and other similar securities, including at the warehouse stage. These may be fixed pools or may be "market value" or managed pools of collateral, including commercial loans, high yield and investment grade debt, structured securities and derivative instruments relating to debt. The pools are typically separated into tranches representing different degrees of credit quality, with lower-rated tranches being subordinate to senior tranches. The senior tranches, which represent the highest credit quality in the pool, have the greatest collateralization and pay the lowest spreads over treasuries. Lower-rated tranches represent lower degrees of credit quality and pay higher spreads over treasuries to compensate for the attendant risks, including volatility of price and greater risk of loss of income and principal.

Structured securities are extremely complex and are subject to risks related to, among other things, risks of subordination, limited diversification, leverage risk, lower credit quality securities, prepayment risk, changes in interest rates, the rate of defaults in the collateral pool, the exercise of redemption rights by more senior tranches and the possibility that a liquid market will not exist when a Fund seeks to sell its interest in a structured security.

Certain structured credit instruments (particularly subordinated structured credit instruments) may also provide that the non-payment of interest in cash on such securities will not constitute an event of default in certain circumstances and the holders of such securities will not have available to them any associated default remedies. Interest not paid in cash will often be capitalized and added to the outstanding principal balance of the related security. Any such deferral will reduce the yield on such structured credit instruments. Distributions on structured credit instruments generally depend solely upon the amount and timing of payments and other collections on the related underlying collateral, the amount of which is typically established to withstand certain assumed deficiencies in payment occasioned by defaults of the underlying collateral. However, if any deficiencies exceed such assumed levels, payments on the related structured credit instruments could be adversely affected by defaults.

Structured credit instruments are generally limited recourse obligations of the issuer payable solely from the underlying collateral of the issuer or proceeds thereof, and the structured credit instruments will not be guaranteed by any person. Consequently, holders of structured credit instruments must rely solely on distributions on the underlying collateral or proceeds thereof for payment in respect thereof, and to the extent the underlying collateral is insufficient to pay the structured credit instruments in full the issuer will not have any other assets that can satisfy any deficiencies.

**Collateralized Loan Obligations.** A Fund may invest in collateralized loan obligations (“CLOs”). A Fund’s portfolio may include a variety of different types of products including CLO senior debt securities, mezzanine or junior debt securities and equity securities. CLO securities are subject to credit and interest rate risks. Furthermore, during periods of market illiquidity, a CLO may not be able to sell assets in its portfolio or may only be able to do so at unfavorable prices. CLOs in a Fund’s portfolio may have no, or only a limited, trading market, which may make it difficult to sell them quickly without incurring significant losses. Because CLOs may be illiquid, they can be difficult to value and the valuations are often based on models or an indicative price from a dealer, rather than on prices at which the security was actually sold; as a result, CLOs (and particularly the junior tranches) may experience large movements in price that may not reflect the actual sales prices of the security. If holders of CLOs attempt to liquidate large portfolios of such securities over a short period of time, difficulties in the market for such securities may be exacerbated, resulting in further decreased liquidity and pricing. Any CLO junior debt securities, and certain CLO junior equity, purchased by a Fund will most likely be unrated or non-investment grade. The CLO junior debt and junior equity positions would only be paid the principal and interest due to the position based on the principal and interest waterfall structured by the trust. CLO junior debt and junior equity often will rank behind other creditors of the CLO and an investment by a Fund in the equity tranche of a CLO will rank behind all creditors of the CLO. To the extent that any losses are incurred by a CLO in respect of its related CLO Collateral (as defined below), such losses will be borne first by the holders of the related CLO equity, next by the holders of any related subordinated CLO debt and finally by the holders of the related CLO senior tranches. In addition, if an event of default occurs under the governing instrument or underlying investment, as long as any CLO senior tranches are outstanding, the holders thereof generally will be entitled to determine the remedies to be exercised under the instrument governing the CLO. Remedies pursued by such holders could be adverse to the interests of the holders of any related subordinated CLO debt or CLO equity. Investments of a Fund may be the first to absorb any losses by the CLO on its underlying portfolio. This may result in losses on the invested proceeds of such Fund and could result in the complete loss of invested proceeds. Moreover, under certain circumstances, cash flows from CLO Collateral that otherwise would have been paid to the holders of its mezzanine CLO debt and the related CLO equity will be used to redeem the related CLO senior tranches. This could result in an elimination, deferral or reduction in the interest payments, principal repayments or other payments made to the holders mezzanine CLO debt and the related CLO equity.

CLOs often invest in concentrated portfolios of assets, including securities backed by commercial and residential mortgages. The concentration of an underlying portfolio in any one obligor would subject the holder of the related CLO securities to a greater degree of risk with respect to defaults by such obligor and the concentration of a portfolio in any one industry or region would subject the holder of the related CLO securities to a greater degree of risk with respect to economic downturns relating to such industry or region. A Fund’s investment in CLOs may involve significant leverage. Leverage is embedded in all classes of a CLO other than the most senior tranche, with the highest leverage applicable to an investment by a Fund in CLO equity securities. While the leverage presents opportunities for increasing a Fund’s total return, it has the effect of

potentially increasing losses as well. Accordingly, any event that adversely affects the value of an investment in a CLO would be magnified to the extent that a CLO security is leveraged.

The value of the CLO securities owned by a Fund generally will fluctuate with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related CLO (“CLO Collateral”), general economic conditions, the condition of certain financial markets, political events, legislation and regulations, developments or trends in any particular industry and changes in prevailing interest rates. Consequently, holders of CLO securities must rely solely on distributions on the CLO Collateral or proceeds thereof for payment in respect thereof. If distributions on the CLO Collateral are not sufficient to make payments on the CLO securities, no other assets will be available for payment of the deficiency and, following realization of the CLO securities, the obligations of such CLO to pay such deficiency generally will be extinguished. CLO Collateral may consist of collateralized loan obligations, corporate loans, asset-backed securities (including both residential and commercial mortgage-backed securities) and other securities, which often are rated below investment grade (or of equivalent credit quality). Lower rated and unrated securities in which a Fund may invest have large uncertainties or major risk exposures to adverse conditions and are considered to be predominantly speculative. Generally, such securities offer a higher return potential than higher rated securities, but involve greater volatility of price and greater risk of loss of income and principal.

**Collateralized Debt Obligations.** Collateralized debt obligations (“CDOs”) are pools of loans, fixed income securities or other fixed income assets, the debt service on which is repackaged into cash flows payable on different tranches of debt collateralized by each pool. Payments on such debt are dependent on payments on the underlying assets. The CDOs in which a Fund may participate involve substantial organizational, syndication and ancillary fees. A Fund’s investments in CDOs will frequently be subordinate in right of payment to other securities sold by the CDO and not readily marketable. Depending upon the default rate on the collateral of the CDO, a Fund may incur substantial losses on its CDO investments. CDO structures are complex, and a Fund may be subject to a number of as yet unanticipated risks in participating in CDOs. For a complete discussion of the risks, refer to “Collateralized Loan Obligations” above.

**Municipal Obligations.** A Fund may invest in obligations issued by state or local governments, their agencies, authorities or instrumentalities (“Municipal Obligations”) and in related derivative instruments. Municipal Obligations may be affected to a greater extent than other fixed income securities by litigation, legislation or other political events or the bankruptcy of the issuer.

Municipal Obligations are subject to the provisions of bankruptcy, insolvency and other laws affecting the rights and remedies of creditors, such as the U.S. Bankruptcy Code. They are also subject to U.S. federal or state laws, if any, that extend the time for payment of principal or interest, or both, or impose other constraints upon enforcement of such obligations or upon municipalities to levy taxes. The power or ability of issuers to pay, when due, principal of and interest on Municipal Obligations may also be materially affected by the results of litigation or other conditions.

From time to time, proposals have been introduced before the U.S. Congress for the purpose of restricting or eliminating the U.S. federal income tax exemption for interest on Municipal Obligations. It may be expected that similar proposals will be introduced in the future. If such a proposal were enacted, it could have a materially adverse effect on the value of Municipal Obligations.

**Commercial Paper.** A Fund may invest in commercial paper, which represents short-term unsecured promissory notes issued by banks or bank holding companies, corporations, finance companies, state and local governments, and by public authorities, agencies and instrumentalities. In the event the issuer cannot generate adequate cash flow, a Fund may suffer a partial or total loss of capital invested. In addition, the lack of security presents some risk of loss to a Fund since, in the event of an issuer’s bankruptcy, unsecured creditors are repaid only after the secured creditors out of the assets, if any, that remain.

**Variable and Floating Rate Securities.** In addition to traditional fixed-rate securities, a Fund may invest in debt securities with variable or floating rate interest or dividend payments. Variable or floating rate securities bear rates of interest that are adjusted periodically according to formulae intended to reflect market rates of interest. Variable or floating rate securities allow a Fund to participate in increases in interest rates through upward adjustments of the coupon rates on such securities; however, during periods of increasing interest rates, changes in the coupon rates may lag behind the change in market rates or such securities may have limits on the

maximum increase in coupon rates. Alternatively, during periods of declining interest rates, the coupon rates on such securities readjust downward, resulting in a lower yield.

A Fund also may invest in derivative variable rate securities, such as inverse floaters whose rates vary inversely with market rates of interest, or range floaters or capped floaters, whose rates are subject to periodic or lifetime caps, or in securities that pay a rate of interest determined by applying a multiple to the variable rate. Investment in such securities involves special risks as compared to a fixed-rate security. The extent of increases and decreases in the value of derivative variable rate securities and the corresponding change to the net asset value of a Fund in response to changes in market rates of interest generally will be larger than comparable changes in the value of an equal principal amount of a fixed-rate security having similar credit quality, redemption provisions and maturity. The markets for such securities may be less developed and have less liquidity than the markets for conventional securities.

**Credit Derivative Transactions.** A Fund may be a user of credit derivatives for hedging purposes respecting its investments. Such derivatives serve as contracts that transfer price, spread and/or default risks of debt and other instruments from one party to another. Such instruments may be based on the debt obligations of one or more debtors. The market for credit derivatives may be relatively illiquid, and there are considerable risks that may make it difficult either to buy or sell the contracts as needed or at reasonable prices. Sellers of credit derivatives carry the inherent price, spread and default risks of the debt instruments covered by the derivative instruments. Buyers of credit derivatives carry the risk of non-performance by the seller due to inability to pay. There are also risks with respect to credit derivatives in determining whether an event will trigger payment under the contract and whether such payment will offset the loss or payment due under another instrument. In the past, buyers and sellers of credit derivatives have found that a trigger event in one contract may not match the trigger event in another contract, exposing the buyer or the seller to further risk.

In addition, a Fund may invest in bank debt, either through a direct assignment, whereby such Fund is listed as the owner of the instrument on the books and records of the agent bank, or through a participation or similar interest, whereby such Fund is not treated as a direct owner of the underlying instrument and is therefore subject to the risk of nonperformance by the counterparty to the transaction.

**Participation Interests.** A Fund may, from time to time, have a participation or derivative interest in (as opposed to direct ownership of) payments and interest on an investment in debt and any related collateral, or an indirect interest (for example, through a swap or other derivative instrument) in such a participation or derivative interest. In such cases, the Fund will not have any direct rights against the issuers of the related debt, any direct rights or recourse in the collateral, if any, securing such debt, or any right to deal directly with any such issuers. The debt holder may, in general, retain the right to determine whether remedies provided for in the underlying debt documents will be exercised, or waived, without any prior consultation with, or consent by, the Fund. In the event that a Fund enters into such an indirect investment or derivative transaction, there can be no assurance that the Fund's ability to realize upon a participation or derivative interest will not be interrupted or impaired in the event of the bankruptcy or insolvency of any of the issuer, borrower, debt holder or the Fund's counterparty in such indirect investment or derivative transaction.

**Amortization.** A Fund may invest in debt that has limited mandatory amortization requirements. While some loans may obligate a borrower to repay a loan out of asset sale proceeds or with annual excess cash flow, such requirements may be subject to substantial limitations and baskets that would allow a company to retain such proceeds or cash flow that may increase the risk that a borrower will not be able to repay or refinance the debt held by a Fund when it comes due at its final stated maturity.

**Specialty Finance Investments.** Investments in the specialty finance industry are subject to various industry-specific risks (including additional risks related to the various segments of the specialty finance industry). Specifically, various segments of the specialty finance industry are (or may become) highly regulated at both the federal and state levels in the United States (including as a result of the creation of the Consumer Financial Protection Bureau) and internationally and subject to frequent regulatory changes. An adverse review or determination by any regulatory authority, or an adverse change in the regulatory environment or requirements, could have a material adverse effect on the operations of the companies in which such investment vehicles invest.

**Fixed Income Securities.** A Fund may invest in bonds or other fixed income securities, including, without limitation, bonds, notes and debentures issued by corporations; debt securities issued or guaranteed by a

government or one of its agencies or instrumentalities; and commercial paper. Fixed income securities pay fixed, variable or floating rates of interest. The value of fixed income securities in which a Fund may invest will change in response to fluctuations in interest rates. In addition, the value of certain fixed income securities can fluctuate in response to perceptions of creditworthiness, political stability or soundness of economic policies. Fixed income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (i.e., credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (i.e., market risk).

**Trade and Other General Unsecured Claims.** A Fund may acquire interests in claims of trade creditors and other general unsecured claim holders of a debtor ("trade claims"). Trade claims generally include, but are not limited to, claims of suppliers for goods delivered and not paid, claims for unpaid services rendered, claims for contract rejections and claims related to litigation. Trade claims are typically unsecured and may, in unusual circumstances, be subordinated to other unsecured obligations of the debtor. The repayment of trade claims is subject to significant uncertainties, including the potential set-off by the debtor as well as other uncertainties described herein with respect to other distressed securities. A trade claim may be transferred or assigned before or after a petition in bankruptcy is filed, including after a proof of claim has been filed. Investments in trade claims and high risk receivables may also entail special risks including, but not limited to, fraud on the part of the assignor of the trade claim as well as logistical and mechanical issues which may affect the ability of a Fund or its agent to collect the claim in whole or in part.

**Risks Associated with Loans to Companies in Distressed Situations.** As part of its lending activities, a Fund may originate loans to, and purchase loans with respect to, companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Although the terms of such financing may result in significant financial returns to a Fund, they involve a substantial degree of risk. The level of analytical sophistication, both financial and legal, necessary for successful financing to companies experiencing significant business and financial difficulties is unusually high. There is no assurance that Hein Park will correctly evaluate the value of the assets collateralizing a Fund's loans or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company funded by a Fund, such Fund may lose all or part of the amounts advanced to the borrower or may be required to accept collateral with a value less than the amount of the loan advanced by the Fund to the borrower.

**Defaulted Securities.** A Fund may invest in the securities of companies involved in bankruptcy proceedings, reorganizations and financial restructurings and may have a more active participation in the affairs of the issuer than is generally assumed by an investor. This may subject a Fund to litigation risks or prevent (or otherwise limit) such Fund from disposing of securities. In a bankruptcy or other proceeding, a Fund as a creditor may be unable to enforce its claims or rights in any collateral or may have its claims or security interest in any collateral challenged, disallowed or subordinated to the claims or security interests of other creditors. While Hein Park attempts to avoid taking the types of actions that would lead to equitable subordination or creditor liability, there can be no assurance that such claims will not be asserted or that Hein Park will be able to successfully defend against them. If a Fund's investment in such securities is significant, a Fund may receive a higher proportion of post-reorganization securities (as discussed below) than cash payments after any bankruptcy proceeding, reorganization or financial restructuring of a company. In addition, a Fund may purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser.

**Risks Related to Bankruptcy.** One or more of the issuers of an investment held by a Fund may become involved in bankruptcy or similar proceedings. There are a number of significant risks inherent in the bankruptcy process. For example, many events in a bankruptcy are adversarial and beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a court would not approve actions which may be contrary to the interests of a Fund. Reorganizations can be contentious and adversarial. Participants may use the threat of, as well as actual, litigation as a negotiating technique. In addition, the duration of a bankruptcy case can only be roughly estimated. The bankruptcy process can involve substantial legal, professional and administrative costs to the company and a Fund, it is subject to unpredictable and lengthy delays, and during the process the company's

competitive position may erode, key management may depart and the company may not be able to invest adequately. In some cases, the company may not be able to reorganize and may be required to liquidate assets. Any of these factors may adversely affect the return on a creditor's investment. Further, U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that a Fund's influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, the class. Additionally, in the early stages of the bankruptcy process it is often difficult to estimate the extent of, or even to identify, any contingent claims that might be made. In addition, certain administrative costs and claims that have priority by law over the claims of certain creditors (for example, claims for taxes) may be substantial. A bankruptcy may result in creditors and equity holders losing their ranking and priority as such if they are considered to have taken over management and functional operating control of a debtor. Moreover, a Fund may purchase creditor claims subsequent to the commencement of a bankruptcy case, and it is possible that such purchase may be disallowed by a court if it determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser.

In addition, it is possible a court may invalidate, in whole or in part, the indebtedness underlying an investment of a Fund as a fraudulent conveyance, subordinate such indebtedness to existing or future creditors of the obligor or recover amounts previously paid by the obligor in satisfaction of such indebtedness. Moreover, in the event of the insolvency of an issuer of indebtedness in which a Fund invests, payments made on such indebtedness could be subject to avoidance as a "preference" if made within a certain period of time (which may be as long as one year) before the issuer becomes a debtor in a bankruptcy case.

Further, several judicial decisions in the United States have upheld the right of borrowers to sue lenders or bondholders on the basis of various evolving legal theories (collectively termed "lender liability"). Generally, lender liability is founded upon the premise that an institutional lender or bondholder has violated an implied or contractual duty of good faith and fair dealing owed to the borrower or issuer or has assumed a degree of control over the borrower or issuer resulting in the creation of a fiduciary duty owed to the borrower or issuer or its other creditors or shareholders. Because of the nature of certain of these investments, a Fund could be subject to allegations of lender liability. Because of the potential of Hein Park or its affiliates to have investments in several positions in the same, different or overlapping levels of a portfolio company's capital structure, a Fund may be subject to claims from creditors of a portfolio company that the investments should be equitably subordinated to the payment of other obligations of the portfolio company by reason of the conduct of Hein Park and its affiliates. In addition, under certain circumstances, a U.S. bankruptcy court could also recharacterize claims held by a Fund as equity interests, and thereby subject such claims to the lower priority afforded equity claims in certain restructuring scenarios.

In any reorganization or liquidation proceeding relating to a company in which a Fund invests, such Fund may lose its entire investment, may be required to accept cash or securities with a value less than the Fund's original investment and/or may be required to accept payment over an extended period of time.

**Bankruptcy Involving Non-U.S. Companies.** Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain, while other developing countries may have no bankruptcy laws enacted, adding further uncertainty to the process for reorganization.

**Post-Reorganization Securities.** Post-reorganization securities typically entail a higher degree of risk than investments in securities of companies that have not undergone a reorganization or restructuring. Moreover, post-reorganization securities can be subject to heavy selling or downward pricing pressure after the completion of a bankruptcy reorganization or restructuring. If Hein Park's evaluation of the anticipated outcome of an investment situation should prove incorrect, a Fund could experience a loss. In addition, a Fund may receive post-reorganization equity securities, which may be subject to greater risk than debt securities.

**Equity Securities and Equity-Related Instruments.** A Fund may invest long and short in equities and equity-related instruments under its investment program. Stocks, options and other equity-related instruments may be



subject to various types of risk, including market risk, liquidity risk, counterparty credit risk, legal risk and operations risk. In addition, equity-related instruments can involve economic leverage and may, in some cases, involve significant risk of loss. "Equity securities" may include common stocks, preferred stocks, interests in real estate investment trusts, convertible debt obligations, convertible preferred stocks, equity interests in trusts (including shares issued by trusts registered as investment companies under the Investment Company Act), partnerships, joint ventures or limited liability companies and similar enterprises, warrants and stock purchase rights. In general, stock values fluctuate in response to the activities of individual companies and in response to general market and economic conditions. Accordingly, the value of the stocks and other securities and instruments that a Fund holds directly or indirectly may decline over short or extended periods of time. The stock markets tend to be cyclical, with periods when stock prices generally rise and periods when stock prices generally decline. The volatility of equity securities means that the value of an investment in a Fund may increase or decrease significantly over relatively short periods.

**Undervalued Securities.** A Fund may invest in undervalued securities. The identification of investment opportunities in undervalued securities is a difficult task, and there can be no assurance that such opportunities will be successfully recognized. Investments in undervalued securities involve a high degree of financial risk and can result in substantial losses. Returns generated a Fund's investments may not adequately compensate for the business and financial risks assumed.

A Fund may make certain speculative investments in securities which Hein Park believes to be undervalued; however, there can be no assurance that the securities purchased will in fact be undervalued. In addition, such Fund may be required to hold such securities for a substantial period of time before realizing their anticipated value. During this period, a portion of the Fund's capital would be committed to the securities purchased, thus possibly preventing the Fund from investing in other opportunities. In addition, a Fund may finance such purchases with borrowed funds and thus would have to pay interest on such funds during such waiting period.

**Private Securities.** A Fund may invest in privately issued securities of both public and private companies. There may be little or no publicly available information regarding the status and prospects of issuers of private securities. In such an instance, Hein Park will be required to make decisions without complete information or in reliance upon information provided by third parties that is impossible or impracticable to verify. In addition, such securities are less liquid than publicly traded securities and may be subject to legal and contractual restrictions on their disposition. The ability of a Fund to dispose of such securities at an attractive price may be dependent upon the issuer conducting a successful initial public offering. As such, there is no assurance that securities purchased by a Fund will be liquidated at a favorable price or at all.

**Derivative Instruments in General.** In managing a Fund, Hein Park may use various derivative instruments, including options, futures, forward contracts, swaps and other derivatives, which may be volatile and speculative. Certain positions may be subject to wide and sudden fluctuations in market value, with a resulting fluctuation in the amount of profits and losses. Use of derivative instruments presents various risks, including the following:

- **Tracking Risk** — When used for hedging purposes, an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment sought to be hedged may prevent a Fund from achieving the intended hedging effect or expose a Fund to the risk of loss.
- **Liquidity Risk** — Derivative instruments, especially when traded in large amounts by a small number of counterparties, may not be liquid in all circumstances, so that in volatile markets a Fund may not be able to close out a position without incurring a loss.
- **Leverage Risk** — Trading in derivative instruments can result in large amounts of leverage. Thus, the leverage offered by trading in derivative instruments may magnify the gains and losses experienced by a Fund and could cause the Fund's net asset value to be subject to wider fluctuations than would be the case if such Fund did not use the leverage feature in derivative instruments.
- **Hedging Risk** — When a derivative is used as a hedge against an opposite position that a Fund also holds, any loss generated by the derivative should be substantially offset by gains on the hedged investment, and vice versa. While hedging can reduce or eliminate losses, it can also reduce or eliminate gains.
- **Investment Risk** — When a Fund uses derivatives as an investment vehicle to gain market exposure, rather than for hedging purposes, any loss on the derivative investment will not be offset by gains on another

hedged investment. A Fund is therefore directly exposed to the risks of that derivative. Gains or losses from derivative investments may be substantially greater than the derivative's original cost.

- **Availability Risk** — Derivatives may not be available to a Fund upon acceptable terms. As a result, such Fund may be unable to use derivatives for hedging or other purposes.
- **Credit Risk** — When a Fund uses derivatives, it is subject to the risk that the other party to the agreement will not be able to perform.

**Over-the-Counter Trading.** Derivative instruments that may be purchased or sold by a Fund may include instruments not traded on an exchange. OTC options, unlike exchange-traded options, are two party contracts with price and other terms negotiated by the buyer and seller. The risk of nonperformance by the obligor on such an instrument may be greater and the ease with which a Fund can dispose of or enter into closing transactions with respect to such an instrument may be less than in the case of an exchange-traded instrument. In addition, significant disparities may exist between “bid” and “asked” prices for derivative instruments that are not traded on an exchange. Derivative instruments not traded on exchanges are also not subject to the same type of government regulation as exchange-traded instruments, and many of the protections afforded to participants in a regulated environment may not be available in connection with such transactions.

**Forward Contracts and Other Principal Transactions and Derivatives.** The trading of OTC derivatives, including forward contracts, certain hedging transactions and swap agreements, each as discussed below, subjects a Fund to a variety of risks including: (1) counterparty risk; (2) basis risk; (3) interest rate risk; (4) settlement risk; (5) legal risk and (6) operational risk. Counterparty risk is the risk that one of a Fund's counterparties might default on its obligation to pay or perform generally on its obligations. Basis risk is the risk that the normal relationship between two prices might move in opposite directions. Interest rate risk is the general risk associated with movements in interest rates. Settlement risk is the risk that a settlement in a transfer system does not take place as expected. Legal risk is the risk that a transaction proves unenforceable in law including because it has been inadequately documented. Operational risk is the risk of unexpected losses arising from deficiencies in a firm's management information, support and control systems and procedures.

Use of derivatives in combination with other techniques such as short sales for hedging purposes involves certain additional risks, including: (a) dependence on the ability to predict movements in the price of the securities hedged; (b) imperfect correlation between movements in the securities on which the derivative is based and movements in the assets of the underlying portfolio; and (c) possible impediments to effective portfolio management or the ability to meet short-term obligations because of the percentage of a portfolio's assets segregated to cover its obligations. In addition, by hedging a particular position, any potential gain from an increase in value of such position may be limited.

In addition, in an attempt to reduce systemic and counterparty risks associated with OTC derivatives transactions, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Reform Act”) requires that a substantial portion of OTC derivatives must be executed in regulated markets and submitted for clearing to regulated clearinghouses. The continuing implementation of the Reform Act could adversely affect a Fund by increasing transaction costs and imposing restrictions on the investment or other operations of a Fund, Hein Park and their affiliates. The CFTC has issued rules requiring the clearing of certain OTC derivatives transactions that fall within its jurisdiction, including certain interest rate and credit derivatives, and it is expected that the CFTC and the SEC will require the clearing of more transactions in the future. OTC trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearinghouse, as well as to existing and potential margin requirements mandated by the CFTC, the SEC and federal bank regulatory agencies. Certain derivatives are already subject to such rules mandated by the CFTC and federal bank regulatory agencies. The SEC has not indicated when it will impose clearing or trade execution requirements on the OTC derivatives that it regulates. The SEC has proposed, but has not finalized, margin requirements for the OTC derivatives that it regulates.

OTC derivative dealers typically demand the unilateral ability to increase a counterparty's collateral requirements for cleared OTC derivatives beyond any regulatory and clearinghouse minimums. The regulators also have broad discretion to impose margin requirements on non-cleared OTC derivatives. Although the Reform Act includes limited exemptions from the clearing and margin requirements for so-called “end-users,” it is not expected that a Fund will be able to rely on such exemptions. In addition, the OTC derivative dealers with which a Fund may execute the majority of its OTC derivatives will not be able to rely on the end-user

exemptions under the Reform Act and therefore such dealers will be subject to clearing and margin requirements notwithstanding whether such Fund is subject to such requirements. OTC derivative dealers are also required to post margin to the clearinghouses through which they clear their customers' trades instead of using such margin in their operations. This has and will continue to increase the dealers' costs, which costs are expected to be passed through to other market participants in the form of higher fees and less-favorable dealer marks. In addition, a Fund may also be required to post higher margin amounts to certain of the dealers with which it trades, which will increase the costs of the Fund and reduce the amount of available capital with which to implement its investment strategy.

The CFTC has also issued rules requiring certain OTC derivatives transactions that fall within its jurisdiction and that are currently executed on a bilateral basis in the OTC markets, including certain interest rate and credit derivatives, to be executed through a regulated securities, futures, or swap exchange or execution facility. It is expected that the CFTC and the SEC will require the execution on a regulated market of additional OTC derivatives transactions in the future. Such requirements may make it more difficult and costly for investment funds to enter into highly tailored or customized transactions. They may also render certain strategies in which a Fund might otherwise engage impossible or so costly that they will no longer be economical to implement. OTC derivatives that are not subject to execution on a regulated market, however, may involve other risks as well, as there will be no exchange market on which to close out an open position, and they will not be subject to similar types of government regulation as exchange-traded instruments as well as the protections afforded to participants in a regulated environment.

OTC derivative dealers and major OTC derivatives market participants are required to register with the SEC and/or the CFTC. Based on its current activities and levels of uncollateralized exposure to swap dealers, it is not anticipated that Hein Park will be required to register as a derivative dealer or major participant in the OTC derivatives markets. Dealers and major participants will be subject to minimum capital and margin requirements. These requirements may apply irrespective of whether the OTC derivatives in question are exchange-traded or cleared. OTC derivatives dealers will also be subject to new business conduct standards, disclosure requirements, reporting and recordkeeping requirements, transparency requirements, position limits, limitations on conflicts of interest, and other regulatory burdens (some of which are already in effect). These requirements have increased and may continue to increase the overall costs for OTC derivative dealers, which are likely to be passed along, at least partially, to market participants in the form of higher fees or less advantageous dealer marks. The ultimate overall impact of the Reform Act on Hein Park's Funds is uncertain and it is unclear how the OTC derivatives markets will adapt to this overall regulatory regime.

A Fund may trade in forward contracts, including forward contracts on foreign currencies. In this connection, a Fund contracts with or through its banks or brokers to make or take future delivery of a particular foreign currency. Although the foreign currency market is not believed to be necessarily more volatile than the market in other commodities, there is less protection against defaults in the forward trading of currencies because such forward contracts are not currently guaranteed by an exchange or clearing house. The CFTC has been granted authority to regulate all swaps, including forward foreign currency contracts, although a limited category of forward foreign currency contracts have been excluded from some of the regulations under the Reform Act as permitted thereunder by the Secretary of the Treasury. Therefore, a Fund may not be afforded all CFTC regulatory protections with respect to those excluded transactions. Other forward contracts may be subject to further regulation that could entail increased costs and, among other things, result in additional recordkeeping, reporting and margining requirements. In addition, there are no limitations on daily price moves of forward contracts. Banks and other dealers with whom a Fund may maintain accounts may require such Fund to deposit margin with respect to such trading, although margin requirements are often minimal or non-existent. A Fund's counterparties are not required to continue to make markets in such contracts. There have been periods during which certain counterparties have refused to continue to quote prices for forward contracts or have quoted prices with an unusually wide spread (the price at which the counterparty is prepared to buy and that at which it is prepared to sell). Arrangements to trade forward contracts may be made with only one or a few counterparties, and liquidity problems therefore might be greater than if such arrangements were made with numerous counterparties. The imposition of credit controls by governmental authorities might limit such forward trading to less than that which would otherwise be optimal, to the possible detriment of a Fund.

Similarly, if a Fund trades in metals or other physical commodities, it may contract as principal to make or take delivery of such commodities. Such transactions are not regulated by the CFTC, and any protections provided

under CFTC regulations do not apply to them. In any principal contract a Fund must rely on the creditworthiness of its counterparties.

**Use of Options.** A Fund may buy or sell (write) both call options and put options, and when it writes options it may do so on a “covered” or an “uncovered” basis. A Fund’s options transactions may be part of a hedging tactic (i.e., offsetting the risk involved in another securities position) or a form of leverage, in which a Fund has the right to benefit from price movements in a large number of securities with a small commitment of capital. These activities involve risks that can be large, depending on the circumstances. In general, the principal risks involved in options trading (without taking into account other positions or transactions a Fund may enter into) can be described as follows:

When a Fund buys an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the security in the case of a put, would result in a total loss of such Fund’s investment in the option (including commissions). The Fund could mitigate those losses by selling short the securities as to which it holds call options or taking a long position (e.g., by buying the securities or buying options on them) on securities underlying put options.

When a Fund sells (writes) an option, the risk can be substantially greater than when it buys an option. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price. This risk is theoretically unlimited unless the option is “covered.” If it is covered, an increase in the market price of the security above the exercise price would cause such Fund to lose the opportunity for gain on the underlying security assuming it bought the security for less than the exercise price. If the price of the underlying security were to drop below the exercise price, the premium received on the option (after transaction costs) would provide profit that would reduce or offset any loss the Fund suffered as a result of owning the security.

The seller of an uncovered put option theoretically could lose an amount equal to the entire aggregate exercise price of the option, if the underlying security were to become valueless. If the option were covered with a short position in the underlying security, this risk would be limited, but a drop in the security’s price below the exercise price would cause a Fund to lose some or all of the opportunity for profit on the “covering” short position assuming a Fund sold short for more than the exercise price. If the price of the underlying security were to increase above the exercise price, the premium on the option (after transaction costs) would provide profit that would reduce or offset any loss a Fund might suffer in closing out its short position.

**Stock Index Options.** A Fund may also purchase and sell call and put options on stock indices listed on securities exchanges or traded in the OTC market for the purpose of realizing its investment objectives or for the purpose of hedging its portfolio. A stock index fluctuates with changes in the market values of the stocks included in the index. The effectiveness of purchasing or writing stock index options for hedging purposes will depend upon the extent to which price movements in a Fund’s portfolio correlates with price movements of the stock indices selected. Because the value of an index option depends upon movements in the level of the index rather than the price of a particular stock, whether a Fund realizes gains or losses from the purchase or writing of options on indices depends upon movements in the level of prices in the stock market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular stocks. Accordingly, successful use by a Fund of options on stock indices will be subject to Hein Park’s ability to correctly predict movements in the direction of the stock market generally or of particular industries or market segments.

**Swap Transactions.** A Fund may engage in all types of swap transactions, including, but not limited to, equity, currency, interest rate and credit default swaps. An equity swap is an agreement to exchange streams of payments computed by reference to a notional amount based on the performance of a basket of stocks or a single stock. Currency swaps involve the exchange of cash flows on a notional amount of two or more currencies based on their relative future values. Interest rate swaps involve an exchange of interest payments on a specific notional principal amount and often involve exchanging a fixed amount per payment period for a payment that is not fixed (the floating side of the swap would usually be linked to another interest rate such as LIBOR). A credit default swap is a specific kind of counterparty agreement which allows the transfer of third-party credit risk from one party to the other whereby if certain prescribed events occur, the counterparty agrees to make certain payments to the other party based on the market value of such third party’s security and/or debt obligations in exchange for regular periodic payments from the other party. A Fund may use these transactions for speculative purposes, such as to obtain the price performance of a security without actually purchasing the

security in circumstances where, for example, the subject security is illiquid, or is unavailable for direct investment or available only on less attractive terms.

Since swaps do not generally involve the delivery of underlying assets or principal, any loss would likely be limited to the net amount of payments required by contract. In some swap transactions, the counterparty may require a Fund to deposit collateral to support its obligation under the swap agreement. If the counterparty to the swap defaults, a Fund would lose the net amount of payments that it is contractually entitled to receive, as well as any collateral deposits made with the counterparty.

**Off-Balance Sheet Risk.** A Fund may invest in financial instruments with off-balance sheet risk. These instruments include forward contracts, futures, swaps and securities and options contracts sold short. An off-balance sheet risk is associated with a financial instrument if the instrument exposes the investor to an accounting and economic loss in excess of the investor's recognized carrying value in the financial instrument (if any); or the ultimate liability associated with the financial instrument has the potential to exceed the amount the investor recognizes as a liability in its statements of assets and liabilities.

**Counterparty Creditworthiness.** A Fund may be subject to the risk of the inability of any counterparty (including a prime broker) to perform with respect to transactions, whether due to insolvency, bankruptcy or other causes. A Fund will deliver collateral to its trading counterparties under the terms of its trading master agreements, either by posting initial margin or on a daily mark-to-market basis. Circumstances may arise where a counterparty may be over-collateralized and/or a Fund may from time to time have uncollateralized mark-to-market exposure to a counterparty in relation to its rights to receive securities and cash. In both circumstances such Fund will be exposed to the creditworthiness of any such counterparty and, in the event of the insolvency of a trading counterparty, such Fund will rank as an unsecured creditor in relation to amounts equivalent to any such over-collateralization and any uncollateralized exposure to such trading counterparty. In such circumstances it is likely that the a Fund will not be able to recover any such amount in full, or at all.

**New Issues.** A Fund may also purchase "new issue" securities. The risk of loss associated with securities purchased in initial public offerings is greater than those in connection with general securities trading. While Hein Park believes that "new issues" offer significant potential for gain, the prices of newly issued securities may not increase as expected, and in fact may decline to a significant extent. If Hein Park is not correct in its assessment of which new issues will appreciate, a Fund may suffer losses. If Hein Park is unable to liquidate such positions in a timely manner, a Fund may be exposed to further losses which could be considerable.

A discussion of additional material risks and material conflicts of interest may be set out in the offering memoranda of particular Funds.

## **Item 9 Disciplinary Information**

There are no material legal or disciplinary events required to be disclosed under this Item 9.

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

Neither Hein Park nor any of its management persons is registered, or has an application pending to register, as: (i) a broker-dealer; (ii) a registered representative of a broker-dealer; (iii) a futures commission merchant; (iv) a commodity pool operator, (v) a commodity trading advisor; or (vi) an associated person of any of (ii), (iii), (iv) or (v).

As described above, Hein Park will serve as the investment adviser to the Funds. Entities that will serve as general partners to the Funds organized as limited partnerships are affiliated with Hein Park.

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

### *Code of Ethics and Personal Trading*

Hein Park expects to adopt a Code of Ethics (the “Code”) in accordance with Rule 204A-1 under the Advisers Act. The Code will be based on Hein Park’s fiduciary duty to its clients. The fundamental tenants of the Code will include: (1) acting in the best interest of clients; (2) conducting personal securities transactions in a manner so as to be consistent with the Code and avoiding any actual or potential conflict of interest or any abuse of a Hein Park employee’s position of trust and responsibility; (3) refraining from taking inappropriate advantage of the relationship with the clients; (4) maintaining the confidentiality of security holdings and financial circumstances of clients; (5) maintaining independence in the investment decision making process; and (6) providing accurate disclosure in reports required by auditors, regulators, or government bodies.

As a fiduciary, Hein Park and its employees will owe an affirmative duty of care, loyalty and good faith to act in the best interests of its clients. Generally, the Code will impose the following five basic requirements on Hein Park and its employees: (1) their conduct must conform with the fiduciary standards set out in the Code; (2) they must comply with all applicable federal laws, including but not limited to federal securities laws; (3) their personal securities transactions must comply with the Code; and (4) they must obtain prior approval for certain personal securities transactions as described under the Code. Hein Park will forbid the illegal use of material non-public information in trading securities, regardless of whether the trades are executed for client accounts or for a personal securities account.

At the commencement of employment at Hein Park and thereafter at least annually, all access persons, as defined below, will sign an acknowledgment that they have received, read and understand all provisions of the Code and agree to be subject to the Code, and any amendments. Access persons are supervised persons who may have access to non-public information regarding a client’s purchase or sale of securities or to non-public information regarding portfolio holdings, who may be involved in making securities recommendations to clients, or who may have access to such recommendations that are non-public.

The Code generally will not permit employees to engage in personal securities transactions, except under certain limited circumstances. Generally, the Code will require access persons to obtain pre-clearance of certain transactions in their own personal accounts, as well as accounts held by relatives that are members of their household. In addition, access persons will report all investment holdings in these accounts and will also require that access persons report transactions in securities, with limited exceptions, to Hein Park’s legal/compliance department no later than 30 days after the end of the calendar quarter.

The Code also will require confidential treatment of information acquired at Hein Park and will contain political contributions, outside activities and gift and entertainment policies, among other items.

Upon request of a client, Hein Park will provide a copy of the Code.

### *Participation or Interest in Client Transactions*

From time to time, Hein Park, its officers and employees may have a material financial interest in securities that are recommended to clients for purchase or sale and may buy or sell securities that are recommended to clients for purchase or sale. Hein Park recognizes that this practice may result in conflicts of interest.

Hein Park’s policy will be that neither Hein Park, nor any person in a control relationship with Hein Park, nor any employee of Hein Park shall effect transactions as a principal with any Fund unless such transactions are in compliance with the provisions of Section 206(3) of the Advisers Act. Hein Park will adopt a cross trade policy to govern how Hein Park processes a coordinated purchase of a security on behalf of one Fund and a sale of the same security on behalf of another Fund at the same time (a “cross trade”).

Hein Park, its affiliates, their employees and relatives of the employees may invest, directly or indirectly, in the Funds. The terms of investment, including economic and liquidity terms, applicable to such investors may be more favorable than the terms available to other investors in a Fund and the other investors will not be provided with notice of such terms or an opportunity to invest on such terms. A Fund and/or Hein Park may enter into side letter agreements with certain prospective or existing investors whereby such investors may be subject to terms and conditions that are more advantageous than those set forth in a Fund's offering documents. For example, such terms and conditions may provide for special rights to make future investments in a Fund, other investment vehicles or managed accounts; special withdrawal rights or better liquidity; transfer rights; a reduction in the management fee or performance allocation to be borne by the investor; rights to receive reports from a Fund on a more frequent basis or that include information not provided to other investors (including, without limitation, more detailed information regarding portfolio positions); rights to co-investment opportunities, and such other rights as may be negotiated by a Fund and such investors and are not generally available to other investors.

Hein Park expects to enter into an arrangement with one or more related institutional investors (collectively, the "Anchor Investor") pursuant to which the Anchor Investor will make a significant capital commitment to an investment fund managed by Hein Park that generally invests parallel to a Fund (the "Anchor Fund"). In consideration for this commitment, the Anchor Investor will be granted certain economic and other entitlements that differ from those available to investors in the Funds. Specifically, the Anchor Investor will be entitled to a portion of both the Management Fee and the Performance Allocation otherwise owed to Hein Park and the general partner to a Fund, respectively, above a certain threshold of assets under management. The Anchor Investor will not have any governance rights regarding (nor responsibility for) the management or investment operations of Hein Park or the Funds.

Hein Park, its officers, directors and employees may trade securities for their own accounts, including securities held by a Fund. Hein Park, its officers, directors and employees may from time to time take positions in their proprietary accounts that are opposite the positions taken for, or held by, a Fund. Hein Park, its officers, directors and employee may receive more favorable execution than the Funds. Personal transactions will be required to comply with the Code, which is discussed above.

#### *Allocation of Investment Opportunities*

There is a potential conflict of interest when determining the allocation of limited investment opportunities across Funds with similar investment mandates. To mitigate the risk of favoring certain Funds over others, Hein Park intends to execute orders for all of the participating clients in a manner that it believes in good faith to be equitable, taking into account such factors as the relative amounts of capital available for new investments, relative exposure to short-term market trends, the investment programs and portfolio positions of the relative clients, the requirements of the governing documents of the clients and other factors as Hein Park deems relevant.

If Hein Park determines that an investment opportunity is appropriate for more than one client, then Hein Park may combine orders for all such accounts that Hein Park deems appropriate, and if any order is not filled at the same price, they may be aggregated on an average price basis. While Hein Park believes combining orders will, over time, be advantageous to all participants, in particular cases the average price could be less advantageous to a Fund.

These allocation policies are intended to be flexible, may be modified or amended from time to time and are subject to change by Hein Park, in its sole and absolute discretion, without prior notice to investors.

## **Item 12 Brokerage Practices**

A Fund's securities transactions are expected to generate a substantial amount of brokerage commissions and other compensation, which the Funds, and not Hein Park, will be obligated to pay. Hein Park will have complete discretion in deciding what brokers and dealers the Funds will use and in negotiating the rates of compensation the Funds will pay. In addition to using brokers as "agents" and paying commissions, the Funds may buy or sell securities directly from or to dealers acting as principals that include markups or markdowns, and may buy securities from underwriters or dealers in public offerings at prices that include compensation to the underwriters and dealers.

Hein Park will generally allocate brokerage on behalf of a Fund on the basis of best available execution and in consideration of such broker's provision or payment of the cost of brokerage and research services that are of benefit to such Fund and other clients of Hein Park. If Hein Park determines in good faith that the amount of commission charged by a broker is reasonable in relation to the value of brokerage and research services provided by such broker, the Funds may pay commissions to such broker in an amount greater than the amount another firm might charge. Such brokerage and research services furnished by brokers through which a Funds effect securities transactions may include the cost of investment research, and may be used by Hein Park or its affiliates in advising other Funds and not necessarily such Fund paying such commissions. This may give Hein Park an incentive to select or recommend a broker-dealer based on our interest in receiving the research or other products or services, rather than a client's interest in receiving most favorable execution. Hein Park generally intends to comply with Section 28(e) of the Exchange Act of 1934 (the "1934 Act") with respect to the allocation of brokerage, which permits the use of "soft dollars" in certain circumstances.

Hein Park will limit the use of "soft dollars" to obtain services that constitute research and brokerage within the meaning of Section 28(e) of the 1934 Act. Research services within Section 28(e) that Hein Park may receive include, but are not limited to, research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts; meetings with corporate executives; consultants' advice on portfolio investments and strategy; data services (including services providing market data, company financial data and economic data); advice from brokers on order execution; advice from industry professionals, lawyers, tax professionals and accountants regarding actual and potential investments; and certain proxy services. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between an adviser and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self regulatory organization such as comparison services, electronic confirms or trade affirmations. Research and brokerage services obtained by the use of commissions arising from a Fund's portfolio transactions may be used by Hein Park in its other investment activities on behalf of another Fund, and thus, a Fund may not necessarily, in any particular instance, be the direct or indirect beneficiary of the research or brokerage services provided. Therefore, the availability of "soft dollars" from certain brokers presents Hein Park with a conflict of interest and may provide incentives for Hein Park to use the services of certain brokers regardless of whether it is in the best interests of a particular Fund.

Certain brokers and custodians may provide capital introduction services whereby Hein Park may be afforded the opportunity to make a presentation regarding services to certain qualified investors identified by the broker or custodian. While the brokers or custodians generally provide such services at no additional cost to Hein Park, Hein Park, and not a Fund, may be the principal or sole beneficiary of those services, thus presenting a potential conflict of interest between a Fund and Hein Park.

Hein Park will not direct brokerage to particular broker dealers solely in return for soft dollar benefits or capital introduction services. Hein Park will determine the selection of particular broker-dealers for securities transactions of the Funds subject to Hein Park's policy to seek best execution for such transactions. Hein Park will not recommend, request or require that a Fund direct it to execute transactions through a specified broker-dealer, nor will Hein Park permit a Fund to direct brokerage.

When Hein Park deems the purchase or sale of securities to be in the best interest of more than one Fund, Hein Park may, but will not be obligated to, aggregate the securities to be purchased or sold. Combining purchase or sale orders in this manner may result in superior execution and/or lower brokerage expenses; however, it may also decrease the prices received or increase the prices required to be paid for the securities sold or purchased. Please refer to Item 11 for a more detailed discussion of the allocation of investment opportunities.



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

Courtney Carson is expected to be responsible for reviewing each Fund's portfolio on a regular basis. Mr. Carson founded and controls Hein Park and serves as the Chief Investment Officer of Hein Park. Mr. Carson is expected to review potential investments and will approve all investments made by the Funds. Mr. Carson, other senior management at Hein Park, and/or other supervisory personnel are expected to be responsible for reviewing documents relating to the investment process, trade data, and other reports on a regular basis and for overseeing investment activity.

The Funds will provide to investors (1) annual audited financial statements within one hundred twenty (120) days of the end of the Fund's fiscal year or as soon thereafter as is reasonably practicable, (2) unaudited quarterly account balances and performance reports and (3) information necessary for investors to complete U.S. Federal, state and local income tax returns.

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

Hein Park will not participate in arrangements with non-clients that result in Hein Park receiving an economic benefit for providing investment advice or other services to its clients.

Hein Park expects to receive capital introduction services from certain brokers and custodians. Hein Park does not expect to pay for these services, but Hein Park, and not its clients, will be the principal or sole beneficiary of such services. Hein Park is responsible for selecting brokers for the Funds, and negotiating brokerage fees, margin fees, and other fees. Capital introduction services may therefore present a conflict of interest between Hein Park and its clients.

### **Item 15 Custody**

Hein Park will be deemed to have custody, as defined in Rule 206(4)-2 under the Advisers Act, of funds or securities of a Fund. Hein Park will rely on the "audit exemption" under Rule 206(4)-2(b)(4) under the Advisers Act, which exempts an adviser to a limited partnership, limited liability company or other pooled investment vehicle from the requirement to deliver account statements to its clients if the adviser requires the vehicle to be audited annually by an independent public accountant that is registered with the Public Company Accounting Oversight Board and distributes the audited financial statements annually to the investors in the vehicle.

### **Item 16 Investment Discretion**

Hein Park has discretionary authority to manage the investment accounts of each Fund under the governing documents of the Fund and/or relevant investment management agreements, which customarily do not place limitations on Hein Park's authority to manage the Fund. The authority is given to Hein Park through each Fund's governing documents and/or relevant investment management agreements and may include a power of attorney and appointment for Hein Park to act as an agent for the Funds.

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

Hein Park generally will have the authority to vote client securities. In accordance with Rule 206(4)-6 under the Advisers Act, Hein Park will adopt and implement written policies and procedures for voting client proxies it receives. Hein Park's general policy is to vote or abstain from voting proxy proposals, amendments, consents, or resolutions related to client portfolio securities (collectively, "proxies"), in a manner that serves the best interests of its Funds. Clients cannot direct Hein Park's vote in a particular solicitation. In the event of a conflict of interest between Hein Park and our clients, Hein Park will vote proxies in the best interest of our clients.

Hein Park will maintain records for each matter relating to a portfolio security with respect to which a Fund was entitled to vote.

A copy of Hein Park's proxy voting policies and its voting record will be provided to clients upon request.

## **Item 18 Financial Information**

Hein Park will not require the payment of fees or other compensation six months or more in advance. There exists no financial condition of which Hein Park is currently aware that would impair Hein Park's ability to meet contractual commitments to its clients. Hein Park has not been the subject of a bankruptcy petition within the past 10 years.