

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

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**Tetragon Financial Management LP**

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**This brochure provides information about the qualifications and business practices of Tetragon Financial Management LP, an investment adviser registered with the United States Securities and Exchange Commission (the “SEC”). If you have any questions about the contents of this brochure, please contact us at +1 (212) 359 7300. The information in this brochure has not been approved or verified by the SEC or by any state securities authority.**

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

**Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.**

## **Item 2            Material Changes**

This section provides only a summary of certain updates made to the brochure since its most recent filing made on March 30, 2016. There have been no material changes made to the brochure since the most recent filing; however, clients and prospective clients should review this brochure carefully.

Several Items of this brochure, although not material, have been revised, including the following: Item 4, Item 8 and Item 11 of this brochure have been revised to include further disclosure on management of the business as well as further disclosure of potential conflicts of interest and risk factors associated with Tetragon Financial Group Limited's asset management platform.

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## **Item 4            Advisory Business**

### *General Description of Advisory Firm*

Tetragon Financial Management LP, or TFM, serves as the investment manager of Tetragon Financial Group Limited, or Tetragon, a Guernsey closed-ended investment company traded on Euronext Amsterdam N.V. under the ticker symbol “TFG.NA” and on the Specialist Fund Segment of the main market of the London Stock Exchange under the ticker symbol “TFG.LN”. Tetragon’s investment objective is to generate distributable income and capital appreciation. It aims to provide stable returns to investors across various credit, equity, interest rate, inflation and real estate cycles. Tetragon invests in a broad range of assets, including bank loans, real estate, equities, credit, convertible bonds and infrastructure and TFG Asset Management L.P., or TFG Asset Management, a diversified alternative asset management business.

Tetragon invests through a master-feeder structure in Tetragon Financial Group Master Fund Limited, or the Tetragon Master Fund, which is also a Guernsey closed-ended investment company. TFM has been appointed as the investment manager of Tetragon and the Tetragon Master Fund under an Investment Management Agreement dated April 26, 2007. *(See below for further information regarding the Investment Management Agreement).*

### *Description of Advisory Services*

To achieve Tetragon’s investment objective of generating distributable income and capital appreciation, the company’s current investment strategy is:

- To identify attractive asset classes and investment strategies.
- To identify asset managers it believes to be superior.
- To use TFM’s market experience to negotiate favorable terms for Tetragon’s investments.
- To own, and where sensible, all, or a portion of, asset management companies with which Tetragon invests in order to enhance the returns achieved on its capital.

In addition, the current investment strategy is to continue to grow TFG Asset Management – as Tetragon’s diversified alternative asset management business – with a view to a possible initial public offering and listing of its shares.

As part of this investment strategy, TFM may employ hedging strategies and leverage in seeking to provide attractive returns while managing risk.

TFM seeks to identify asset classes that offer excess returns relative to their investment risk, or “intrinsic *alpha*.” It analyses the risk/reward, correlation, duration and liquidity characteristics of each potential capital use to gauge its attractiveness and incremental impact on Tetragon.

TFM then seeks to find high-quality managers who invest in these asset classes; selects or structures suitable investment vehicles that optimise risk-adjusted returns for Tetragon’s capital; and/or seeks for Tetragon (*via* TFG Asset Management) to own a share of the asset management company. TFM aims to not only produce asset-level returns for Tetragon, but also to enhance these returns with capital appreciation and investment income from its investments in asset management businesses that derive income from external investors.

Certain considerations when evaluating the viability of a potential asset manager typically include performance track records, reputation, regulatory requirements, infrastructure needs and asset gathering capacity. Potential profitability and scalability of the asset management business are also important considerations. Additionally, the core capabilities, investment focus and strategy of any new business should offer a complementary operating income stream to TFG Asset Management’s existing businesses. TFM looks to mitigate potential correlated risks across TFG Asset Management’s investment managers by diversifying its exposure across asset classes, investment vehicles, durations and investor types, among other factors.

Tetragon’s asset management businesses can operate autonomously, or on the TFG Asset Management platform. In either case, the objective is for them to benefit from an established infrastructure, which can assist in critical business management functions such as risk management, investor relations, financial control, technology, legal, compliance and regulatory matters, while maintaining entrepreneurial independence.

TFG Asset Management is registered as an investment adviser under the U.S. Investment Advisers Act of 1940 and two of its investment management affiliates, Polygon Global Partners LLP and Equitix Investment Management Limited, are authorized and regulated by the United Kingdom Financial Conduct Authority.

TFM does not participate in wrap fee programs.

### *Management Structure and Governance*

As stated earlier, TFM has been appointed the investment manager of Tetragon and the Tetragon Master Fund pursuant to an investment management agreement. TFM’s general partner,

Tetragon Financial Management GP LLC, is responsible for all actions of TFM. The general partner is ultimately controlled by Reade Griffith and Paddy Dear, who also control the holder of Tetragon's voting shares and are the voting members of TFM's Investment and Risk Committees. Reade Griffith acts as the authorized representative of the general partner and TFM.

TFM's Investment Committee is responsible for the investment management of Tetragon and the Tetragon Master Fund portfolio and currently consists of Reade Griffith, Paddy Dear, Jeffrey Herlyn, Michael Rosenberg, David Wishnow and Stephen Prince. The Investment Committee determines the investment strategy of Tetragon and the Tetragon Master Fund and approves each significant investment by them.

TFM's Risk Committee is responsible for the risk management of Tetragon and the Tetragon Master Fund portfolio and performs active and regular oversight and risk monitoring. The Risk Committee has the same composition as the investment committee.

TFM's Executive Committee oversees all key non-investment and risk activities of TFM and currently consists of Reade Griffith, Paddy Dear, David Wishnow, Stephen Prince, Paul Gannon, Sean Côté and Greg Wadsworth.

#### *Key Provisions of the Investment Management Agreement*

Under the terms of the April 26, 2007, Investment Management Agreement among TFM, Tetragon and the Tetragon Master Fund, TFM has full discretion to invest the assets of Tetragon and the Tetragon Master Fund in a manner consistent with the investment objective of Tetragon. TFM has the authority to determine the investment strategy to be pursued in furtherance of the investment objective, which strategy may be changed from time to time by TFM in its discretion. TFM is authorized to delegate its functions under the Investment Management Agreement.

The Investment Management Agreement continues in full force and effect unless terminated (i) by TFM at any time upon 60 days' notice or (ii) immediately upon Tetragon or the Tetragon Master Fund giving notice to TFM or the investment manager giving notice to Tetragon or the Tetragon Master Fund in relation to such entity in the event of (a) the party in respect of which notice has been given becoming insolvent or going into liquidation (other than a voluntary liquidation for the purpose of reconstruction or amalgamation upon terms previously approved in writing by the other party) or a receiver being appointed over all or a substantial part or of its assets or it becoming the subject of any petition for the appointment of an administrator, trustee or similar officer, (b) a party committing a material breach of the Investment Management Agreement which causes a material adverse effect to the non-breaching party and (if such breach shall be capable of remedy) not making good such breach within 30 days of service upon the

party in breach of notice requiring the remedy of such breach or (c) fraud or willful misconduct in the performance of a party's duties under the Investment Management Agreement.

The Investment Management Agreement provides that none of TFM, its affiliates or their respective members, managers, partners, shareholders, directors, officers and employees (including their respective executors, heirs, assigns, successors or other legal representatives) (each, as an indemnified party) will be liable to the Tetragon Master Fund, Tetragon or any investor in the Tetragon Master Fund or Tetragon for any liabilities, obligations, losses (including, without limitation, losses arising out of delay, mis-delivery or error in the transmission of any letter, cable, telephonic communication, telephone, facsimile transmission or other electronic transmission in a readable form), damages, actions, proceedings, suits, costs, expenses (including, without limitation, legal expenses), claims and demands suffered in connection with the performance by TFM of its obligations under the Investment Management Agreement or otherwise in connection with the business and operations of Tetragon or the Tetragon Master Fund, in the absence of fraud or willful misconduct on the part of an indemnified party, and Tetragon and the Tetragon Master Fund have each agreed to indemnify each indemnified party against any such liabilities, obligations, losses, damages, actions, proceedings, suits, costs, expenses, claims and demands, except as may be due to the fraud or willful misconduct of the indemnified party.

TFM may act as investment manager or advisor to any other person, so long as its services to Tetragon or the Tetragon Master Fund are not materially impaired thereby, and need not disclose to Tetragon or the Tetragon Master Fund anything that comes to its attention in the course of its business in any other capacity than as investment manager. The investment manager is not liable to account for any profit earned or benefit derived from advice given by TFM to other persons. TFM will not be liable to Tetragon or the Tetragon Master Fund for any loss suffered in connection with TFM's decision to offer investments to any other person, or failure to offer investments to Tetragon or the Tetragon Master Fund.

TFM is authorized to enter into transactions on behalf of Tetragon and the Tetragon Master Fund with persons who are affiliates of TFM, provided that in connection with any such transaction that exceeds \$5 million of aggregate investment, TFM obtains either (i) the approval of a majority of the members of the Board Directors of Tetragon and the Tetragon Master Fund that do not have a material interest in such transaction (whether as part of a Board of Directors resolution or otherwise) or (ii) an opinion from a recognized investment bank, auditing firm or other appropriate professional firm substantively to the effect that the financial terms of the transaction are fair to Tetragon and the Tetragon Master Fund from a financial point of view.

*The Investment Manager's Role with respect to TFG Asset Management*

TFM's responsibilities with respect to Tetragon and the Tetragon Master Fund include, *inter alia*:

- investing and reinvesting the assets of Tetragon and the Tetragon Master Fund in securities, derivatives and other financial instruments and other investments of whatever nature and committing the assets of Tetragon and the Tetragon Master Fund in relation to agreements with entities, issuers and counterparties;
- holding cash balances or investing them directly in any short-term investments, and reinvesting any income earned thereon in accordance with Tetragon's investment strategy;
- purchasing, holding, selling, transferring, exchanging, mortgaging, pledging, hypothecating and otherwise acting to acquire and dispose of and exercise all rights, powers, privileges and other incidents of ownership or possession with respect to investments held or owned by Tetragon and the Tetragon Master Fund, with the objective of the preservation, protection and increase in value thereof;
- exercising any voting or similar rights attaching to investments purchased on behalf of Tetragon and the Tetragon Master Fund;
- borrowing or raising monies from time to time without limit as to amount or manner and time of repayment;
- engaging consultants, attorneys, independent accountants or such other persons as TFM may deem necessary or advisable; and
- entering into any other contracts or agreements in connection with any of the foregoing activities.

TFG Asset Management is an investment of the Tetragon Master Fund, and, as such, TFM, as its investment manager, is responsible for exercising any of the Tetragon Master Fund's voting or similar rights with respect to TFG Asset Management, as is true for the Tetragon Master Fund's other investments. As with any other category of investments, TFM is also responsible for decisions with respect to acquisitions and dispositions by the Tetragon Master Fund of asset management businesses.<sup>1</sup> Following the acquisition of an asset management business, that business then becomes a part of TFG Asset Management.

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<sup>1</sup> The Investment Manager has determined that Tetragon's current investment strategy is to continue to grow TFG Asset Management with a view to a possible initial public offering and listing of its shares.



TFG Asset Management seeks to generate income and value from its asset management businesses by having these businesses manage third-party investor capital. TFG Asset Management has an internal management team that is responsible for the TFG Asset Management business as a whole, including the oversight of its various asset management businesses as they form and grow the funds that they manage, and is responsible for its own costs.

The Tetragon Master Fund may invest in the various funds and other vehicles managed by a TFG Asset Management business. It may also provide financial support to any fund managed by a TFG Asset Management business (such as a “seeding” arrangement), or provide equity, loans or other financial support to TFG Asset Management or its asset management businesses. TFM is responsible for any decision to invest cash into any fund or other vehicle managed by a TFG Asset Management business (TFM is also responsible for selecting third-party managers who invest in asset classes appropriate for the Tetragon Master Fund) and is also responsible for decisions regarding financial support for TFG Asset Management.

#### *The Services Agreement between TFM and Certain Subsidiaries of TFG Asset Management*

TFM has, since its inception, relied on two Polygon entities (Polygon Global Partners LP and Polygon Global Partners LLP) for a broad range of services to support its activities.

Following Tetragon’s October 28, 2012, acquisition of Polygon Management L.P., these entities have been part of TFG Asset Management (Polygon Private Investment Partners LP, an investment management entity in which Reade Griffith and Paddy Dear have an interest and that was not included in this acquisition, also continues to rely on TFG Asset Management for certain services to support its activities). The services provided to TFM under a Services Agreement by TFG Asset Management, through these entities, include infrastructure services such as operations, financial control, trading, marketing and investor relations, legal, compliance, office administration, payroll and employee benefits and other services. One of those entities, Polygon Global Partners LLP, which is authorised and regulated by the United Kingdom Financial Conduct Authority, also provides services relating to the dealing in and management of investments, arrangement of deals and advising on investments.

#### *Cost Recovery by TFG Asset Management for Services Provided to TFM*

TFG Asset Management, through its Polygon subsidiaries, has implemented a cost allocation methodology with the objective of allocating service-related costs, including to TFM, in a consistent, fair, transparent and commercially-based manner. This cost allocation methodology

also applies to the other TFG Asset Management businesses to which the Polygon entities provide services.

TFG Asset Management then charges fees to TFM for the services allocated to TFM on a cost-recovery basis that is designed to achieve full recovery of the allocated costs.

Most of the costs related to these services are directly or indirectly attributable to personnel or “human capital”, with compensation typically being the largest single cost.

Consequently, one of the most critical cost allocations is related to professionals’ time, which is commonly expressed as Full Time Equivalents or “FTEs”. On a monthly basis, each TFG Asset Management employee, directly or via their team head, provides a breakdown of the approximate percentage of time spent supporting the various businesses for the previous month (this excludes certain functions such as office management and technology that are charged to business users on a standard basis, which removes any need on the part of those teams to allocate their FTEs to business lines). TFG Asset Management employees should not be incentivized to either over or under allocate to any business as their time allocation is not a consideration in the determination of their overall compensation. Once allocated percentages are determined and agreed, an FTE is derived. Personnel costs (excluding bonuses) of each function are calculated using a standard costing methodology, which includes a standard add-on for employment taxes and standard employee benefits. Bonuses are charged to each business line (including TFM) based on the FTE allocation described above. Employee compensation also includes TFG Asset Management’s Long-Term Incentive Program (LTIP) and its other equity-based awards which are intended to give certain senior-level employees of TFG Asset Management long-term exposure to Tetragon stock. The costs of the LTIP and other existing equity-based incentive compensation awards include the principal and interest payable on a loan from the Tetragon Master Fund to TFG Asset Management in an initial principal amount equal to the purchase price of the Tetragon shares to be held to hedge against grants under such incentive programs.

In addition to FTE costs, there are a number of other costs that reflect the use of resources by TFG Asset Management personnel on behalf of TFM (in addition to the other TFG Asset Management businesses), including real property costs, technology, travel and entertainment and market data. A standard cost methodology is used to allocate these costs across the various business lines that are supported, including TFM. The setting of standard costs is designed to reflect what those costs would be on an arm’s-length basis. The methodology is designed to create consistency in order to provide a fair allocation of resource costs to all businesses.

The amount recharged to TFM through the above-described cost allocation methodology in 2016 was \$14 million and in 2015 was \$13.9 million.

Employee FTE data is collated and is used to process monthly cost allocations. Such allocations are invoiced monthly to users of the TFG Asset Management platform which are not owned by TFG Asset Management, including TFM, or allocated within the TFG Asset Management general ledger for businesses owned by TFG Asset Management.

TFG Asset Management cost allocation methodology is documented and updated annually by TFG Asset Management's finance group in consultation with its legal and compliance group and is approved each year by TFG Asset Management's executive committee.

TFG Asset Management's auditors, reporting directly to Tetragon's Audit Committee, are currently engaged to periodically test that the costs allocated to (and therefore recovered from) TFM have been properly calculated in accordance with the approved cost allocation methodology. Tetragon's Independent Directors, who are specifically mandated to approve, among other things, related-party transactions, are required to approve the methodology for allocating costs and in their sole discretion the application of that methodology as part of their oversight processes. As such, the annual cost allocation methodology update and the actual annual cost allocations that result based on these cost methodology policies and procedures are separately approved by the Independent Directors.

#### *Assets Under Management*

The amount of client net asset value that the Investment Adviser manages on a discretionary basis is approximately U.S. \$1.9 billion (as of December 31, 2016). TFM does not currently manage any client assets on a non-discretionary basis.

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

#### *Advisory Fees and Compensation*

TFM has intentionally omitted the full section on compensation for advisory services, as it is an SEC registered adviser and this brochure is being delivered only to "qualified purchasers" as defined in Section 2(a)(51)(A) of the Investment Firm Act of 1940, as amended.

#### *Management and Incentive Fees; Expenses*

TFM, as investment manager, deducts all compensation described below automatically from its clients' accounts pursuant to their governing documents.

TFM earns fees and is reimbursed for expenses pursuant to the Investment Management Agreement. All fees and expenses of Tetragon and the Tetragon Master Fund, except for the

incentive fees for TFM as investment manager (as described below), will be paid by the Tetragon Master Fund, including management fees relating to the administration of Tetragon.

The investment manager is entitled to receive management fees equal to one and one-half percent (1.5%) *per annum* of the net asset value (NAV) of Tetragon payable monthly in advance prior to the deduction of any accrued incentive fees. No separate management fees are payable with respect to the NAV of the Tetragon Master Fund.

Tetragon will also pay to TFM an incentive fee for each Calculation Period (as defined below) equal to 25% of the increase in the NAV of Tetragon during the Calculation Period (before deduction of any dividend paid or the amount of any redemptions or repurchases of Shares (or other relevant capital adjustments) during such Calculation Period) above (i) the Reference NAV (as defined below) plus (ii) the Hurdle (as defined below) for the Calculation Period. If the Hurdle is not met in any Calculation Period (and no incentive fee is paid), the shortfall will not carry forward to any subsequent Calculation Period.

A “Calculation Period” is a period of three months ending on March 31, June 30, September 30 and December 31 of each year, or as otherwise determined by the Board of Directors of Tetragon.

The “Reference NAV” is the greater of (i) NAV at the end of the Calculation Period immediately preceding the current Calculation Period and (ii) the NAV as of the end of the Calculation Period ending three months earlier than the Calculation Period referred to in clause (i). For the purposes of determining Reference NAV at the end of a Calculation Period, NAV shall be adjusted by the amount of accrued dividends and amounts of any redemptions or repurchases of Shares (or other relevant capital adjustments) and incentive fees to be paid with respect to that Calculation Period.

The “Hurdle” for any Calculation Period will equal (i) the Reference NAV multiplied by (ii) the Hurdle Rate (defined below).

The “Hurdle Rate” for any Calculation Period equals 3-month U.S. Dollar LIBOR determined as of 11:00 a.m. London time on the first London business day of the then current Calculation Period plus the hurdle spread of 2.647858%, in each case multiplied by (x) the actual number of days in the Calculation Period divided by (y) 365.

The incentive fee in respect of each Calculation Period is calculated by reference to the increase in NAV of the Shares before deduction of any accrued incentive fee. The incentive fee is normally payable in arrears within 14 calendar days of the end of the Calculation Period. If the Investment Management Agreement is terminated other than at the end of a Calculation Period, the date of termination will be deemed to be the end of the Calculation Period. The Investment

Manager does not charge separate fees based on the NAV of the Tetragon Master Fund. Tetragon and the Tetragon Master Fund generally bear all costs and expenses directly related to their investments or prospective investments, such as brokerage commissions, interest on debt balances or borrowings, custodial fees and legal and consultant fees. Tetragon and the Tetragon Master Fund also generally bear all out-of-pocket costs of administration including accounting, audit, administrator and legal expenses, costs of any litigation or investigation involving their activities, costs associated with reporting and providing information to existing and prospective investors and the costs of liability insurance.

### *Investment Manager Options*

In recognition of the work performed by TFM in successfully arranging the 2007 global offering and the associated raising of new capital for the company, Tetragon granted to TFM options to purchase 12,545,330 of Tetragon's Non-Voting Shares (subject to the application of customary anti-dilution provisions) at an exercise price per share equal to the IPO offer price (U.S.\$10.00). These options became fully vested and immediately exercisable as of the date of admission to the Euronext Amsterdam N.V. and will remain exercisable until the 10<sup>th</sup> anniversary of that date (*i.e.*, April 26, 2017). As of the date of this brochure, none of the options have been exercised. The options, if exercised, will be settled by Tetragon on a cashless basis by issuing TFM the net shares (based on the then-current share price) resulting from such exercise.

### *Additional Fees and Expenses*

As mentioned above, Tetragon and the Tetragon Master Fund generally bear their own expenses, including, without limitation, accounting, auditing, entity-level taxes and tax preparation expenses, legal fees and expenses (including expenses relating to regulatory filings made in connection with each client's business, indemnification expenses and expenses relating to regulatory or similar investigations, inquiries and "sweeps"), professional fees and expenses (including fees and expenses of investment bankers, appraisers, public and government relations firms and other consultants and experts), investment-related expenses (including research) and expenses (including travel and lodging expenses) associated with activist campaigns (both long and short) such as expenses related to event hosting and production, public presentations, public relations, public affairs and government relations, forensic and other analyses and investigations, proxy contests, solicitations and tender offers, and compensation, indemnification and other expenses of any nominees proposed by TFM as directors or executives of portfolio companies, printing and postage expenses, brokerage fees and commissions, expenses relating to short sales (including dividend and stock borrowing expenses), clearing and settlement charges, custodial fees, bank service fees, margin and other interest expense and transaction fees, "blue sky" and corporate filing fees and expenses, insurance expenses, initial offering and organizational expenses and on-going offering expenses, the management fee, the performance allocation,

performance fees and payments for custody of each client's assets and for the performance of administrative services, and other client expenses.

Where TFM receives management fees in advance from a particular account and its services with respect to that account are terminated prior to the end of the billing period, TFM would refund to the relevant client an amount of management fees prorated from the date of its termination to the end of the period covered by the advance fee.

For more information on brokerage transactions and costs, please see Item 12 – Brokerage Practices.

TFM's compensation is subject to waiver or reduction in its discretion. TFM, its affiliates and certain of its professionals may invest in investment vehicles advised by TFM. TFM's principals and employees are subject to reduced management fees, performance fees and/or carried interest on their direct or indirect investment in its fund clients.

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

Performance-based fees and allocations are described in the offering documents or agreement of the relevant client and have been described generally in the preceding section, Item 5 – Fees and Compensation.

TFM accepts performance-based compensation from Tetragon and Tetragon Master Fund; however, TFM does not have any other clients as of the date of this brochure. As a result, TFM does not face the conflicts of interest that may arise when a manager accepts performance-based compensation from some clients, but not from other clients, and does not currently have an incentive to allocate limited investment opportunities to the clients from whom the greatest performance-based fees may be earned. TFM has an allocation policy that addresses conflicts of the interest, and it is described in Item 11 herein. As a registered investment adviser, TFM in any event exercises due care to ensure that investment opportunities are allocated equitably among all clients, regardless of the client's corresponding fee structure.

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

As of the date of this brochure, TFM's only clients are Tetragon and the Tetragon Master Fund. Tetragon invests substantially all of its capital through the Tetragon Master Fund.

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

Below is a general summary of our investment strategies, methods of analysis and material risks. More information on each of the below can be found on the Tetragon website ([www.tetragoninv.com](http://www.tetragoninv.com)).

### *Methods of Analysis and Investment Strategies*

The descriptions set forth in this brochure of specific advisory services that TFM offers to Tetragon and the Tetragon Master Fund, and investment strategies pursued and investments made by TFM on behalf of such clients should not be understood to limit in any way TFM's ability to engage in other investment activities. TFM may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this brochure, that TFM considers appropriate, subject to its clients' investment objectives and guidelines. The investment strategies TFM pursues are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any client will be achieved.

Tetragon's investment objective is to generate distributable income and capital appreciation. To achieve that objective, TFM has adopted a current investment strategy as set forth above under Item 4.

### *Material, Significant or Unusual Risks Relating to Investment Strategies*

The principal risks facing Tetragon are both financial and operational in nature, and ultimately relate to both Tetragon's issued and outstanding non-voting shares as well as its investment portfolio held by the Tetragon Master Fund. The financial risks inherent in its portfolio are primarily market-related or are otherwise relevant to particular asset classes. Operational risks include those related to Tetragon's organisational structure, investment manager, legal and regulatory environment, taxation, financing and other areas where internal or external factors could result in financial or reputational loss.

The risks and uncertainties discussed below are those that TFM believes are material, but these risks and uncertainties are not the only ones that Tetragon faces. Additional risks and uncertainties that the company does not presently know about or that it currently believes are immaterial may also adversely impact the company's business, financial condition, results of operations, the value of its assets or the value of an investment in Tetragon's shares. If any of the following risks actually occur, the company's business, financial condition, results of operations, the value of its assets and the value of an investment in Tetragon's shares would likely suffer.

## Financial Risks

### *Risks Relating to Investing in Tetragon's Shares*

The price of Tetragon's non-voting shares fluctuates significantly and investors in such shares could lose all or part of their investment.

The market price of Tetragon's non-voting shares fluctuates significantly and may bear no correlation to Tetragon's NAV, and holders may not be able to resell their Tetragon shares at or above the price at which they were purchased. In addition to portfolio-level and operational risks highlighted below, factors that may cause the price of Tetragon's shares to vary include:

- changes in Tetragon's financial performance and prospects or in the financial performance and prospects of companies engaged in businesses that are similar to Tetragon's business;
- changes in the underlying values of Tetragon's investments;
- illiquidity in the market for Tetragon shares, including given the liquidity of the Euronext Amsterdam N.V. exchange and the Specialist Fund Segment of the Main Market of the London Stock Exchange;
- speculation in the press or investment community regarding Tetragon's business or investments, or factors or events that may directly or indirectly affect its business or investments;
- a loss of a major funding source (if Tetragon breaches the covenants under its financing agreements it could be forced to sell assets at prices less than fair value);
- a further issuance of shares or repurchase of shares by Tetragon;
- dividends declared by Tetragon;
- broad market fluctuations in securities markets that in general have experienced extreme volatility often unrelated to the operating performance or underlying asset value of particular companies or partnerships;
- general economic trends and other external factors;
- sales of Tetragon shares by other shareholders; and



- restrictions within Tetragon’s articles of incorporation that may limit the ability to invest in or transfer Tetragon shares, including those relating to the U.S. Employee Retirement Income Security Act of 1974 (ERISA).

Some of these factors are described more fully below.

### *Risks Relating to Tetragon’s Investment Portfolio*

Tetragon’s investment portfolio comprises a broad range of assets, including a diversified alternative asset management business, TFG Asset Management, and covers bank loans, real estate, equities, credit, convertible bonds and infrastructure. As a general matter, the portfolio is exposed to the risk that the fair value of these investments will fluctuate.

### *Risks Relating to TFG Asset Management*

TFG Asset Management, as one of Tetragon’s investments, has risks particular to an asset management business as well as to a private equity investment in asset management businesses. These include the following risks.

*The asset management business is intensely competitive.*

The asset management business is intensely competitive, with competition based on a variety of factors, including investment performance, the quality of service provided to clients, investor liquidity and willingness to invest, fund terms (including fees), brand recognition and business reputation. TFG Asset Management competes with a number of private equity funds, specialised investment funds, hedge funds, funds of hedge funds and other sponsors managing pools of capital, as well as corporate buyers, traditional asset managers, commercial banks, investment banks and other financial institutions (including sovereign wealth funds). A number of factors serve to increase its competitive risks:

- a number of its competitors in some of its businesses have greater financial, technical, marketing and other resources and more personnel than it does;
- some of its funds may not perform as well as competitors’ funds or other available investment products;
- several of its competitors have significant amounts of capital, and many of them have similar investment objectives to TFG Asset Management, which may create additional competition for investment opportunities and may reduce the size and duration of pricing inefficiencies that many alternative investment strategies seek to exploit;

- some of these competitors may also have a lower cost of capital and access to funding sources that are not available to TFG Asset Management, which may create competitive disadvantages for it with respect to investment opportunities;
- some of its competitors may be subject to less regulation or less regulatory scrutiny and accordingly may have more flexibility to undertake and execute certain businesses or investments than it can and/or bear less compliance expense than it does;
- some of its competitors may have more flexibility than TFG Asset Management in raising certain types of investment funds under the investment management contracts they have negotiated with their investors;
- some of its competitors may have higher risk tolerances, different risk assessments or lower return thresholds, which could allow them to consider a wider variety of investments and to bid more aggressively than TFG Asset Management for investments that it wants to make;
- there are relatively few barriers to entry impeding new alternative asset fund management firms, and the successful efforts of new entrants into TFG Asset Management's various businesses, including former "star" portfolio managers at large diversified financial institutions as well as such institutions themselves, is expected to continue to result in increased competition;
- some of its competitors may have, or be regarded by investors as having, better expertise in a specific asset class or geographic region than it does;
- its competitors that are corporate buyers may be able to achieve synergistic cost savings in respect of an investment, which may provide them with a competitive advantage in bidding for an investment; and
- some investors may prefer to invest with an investment manager that is not publicly traded, is smaller or manages fewer investment products.

TFG Asset Management may lose investment opportunities in the future if it does not match investment prices, structures and terms offered by competitors. Alternatively, it may experience decreased rates of return and increased risks of loss if it does match investment prices, structures and terms offered by competitors. Moreover, if it is forced to compete with other alternative asset managers on the basis of price, it may not be able to maintain its current fund fee and carried interest terms. TFG Asset Management has also confronted, and expects to continue to confront, requests from a variety of investors and groups representing investors to decrease fees.

*The performance of TFG Asset Management may be negatively influenced by various factors, including the performance of managed funds and vehicles and its ability to raise capital from third-party clients.*

In the event that any TFG Asset Management investment funds and vehicles were to perform poorly, TFG Asset Management's revenue, income and cash flow would decline because the value of its assets under management would decrease, which would result in a reduction in management fees, and its investment returns would decrease, resulting in a reduction in incentive fees earned.

Poor performance of TFG Asset Management investment funds and vehicles could make it more difficult to raise new capital. Investors might withdraw their investments as a result of poor performance of the investment funds in which they are invested. Investors and potential investors in TFG Asset Management funds continually assess the investment funds' performance, and TFG Asset Management's ability to raise capital for existing and future investment funds and avoid excessive redemption levels will depend on its investment funds' and vehicles' continued satisfactory performance. Accordingly, poor fund performance may deter future investment in TFG Asset Management funds and thereby decrease the capital invested in such funds and ultimately, management fee income. Alternatively, in the face of poor fund performance, investors could demand lower fees or fee concessions for existing or future funds which would likewise decrease revenue. A significant number of fund sponsors have decreased the amount of fees they charged investors for managing existing or successor funds as a direct result of poor fund performance. TFG Asset Management's ability to raise capital from third-party investors also depends on factors that are outside its control. Certain factors, such as the performance of the stock market or the asset allocation rules or regulations or investment policies to which such third party investors are subject, could inhibit or restrict the ability of third-party investors to make investments in TFG Asset Management investment funds or the asset classes in which TFG Asset Management investment funds and vehicles invest.

The attractiveness of TFG Asset Management investment funds relative to investments in other investment products could decrease depending on economic conditions. This competitive pressure could adversely affect TFG Asset Management's ability to make successful investments and limit its ability to raise future investment funds, either of which would adversely impact its business, revenue, results of operations and cash flow.

*The performance of TFG Asset Management may be negatively influenced by its ability to retain key personnel.*

TFG Asset Management is highly dependent on its investment professionals for the management of its *investment funds and vehicles* and on other employees for supervision of its asset management businesses. If and when such persons ceased for any reason to participate in the management of TFG Asset Management or its *investment funds and vehicles*, the consequence could be material and adverse.

*Certain of TFG Asset Management's businesses have a limited or no operating history and the performance of the various TFG Asset Management businesses otherwise may be negatively influenced by factors specific to those businesses.*

#### *GreenOak*

TFG Asset Management has a 23% interest in GreenOak, a real estate-focused principal investing, lending and advisory joint venture established in 2010. GreenOak has a limited prior operating history and it may be unable to successfully operate its business or achieve its investment objectives. The past performance of other real estate investment programs sponsored by the founders of GreenOak may not be indicative of the performance GreenOak may achieve. If GreenOak is unsuccessful, TFG Asset Management may lose all or part of its investment.

#### *Hawke's Point*

TFG Asset Management established Hawke's Point in the fourth quarter of 2014 as a new start-up business seeking to provide capital to companies in the mining and resources sectors. As a start-up, TFG Asset Management has incurred losses in the early years as the business was established and as it develops a portfolio of investments. Hawke's Point's ability to pursue investment opportunities and/or generate fee income may require raising sufficient third-party funds. There is no assurance that Hawke's Point will find appropriate investment opportunities or will raise third-party funds necessary to pursue opportunities or generate fee income, or that its investments in such opportunities will generate profitable returns in the future.

#### *Equitix*

Tetragon acquired 85% of Equitix, an integrated core infrastructure asset management and primary project platform, in February 2015. Equitix was founded in 2007 and it has established funds with a life of up to 25 years. Accordingly, Equitix's funds are still relatively early in their life cycle and Equitix is yet to manage any fund over its full life cycle. The past performance of Equitix may not be indicative of its future performance. TFG Asset Management may not

achieve the growth and performance that it expects to achieve by investing in Equitix, which may adversely affect TFG Asset Management's results.

### *TCIP*

TFG Asset Management organised Tetragon Credit Income Partners (TCIP) in 2015 in connection with efforts to deploy capital and resources intended to assist CLO collateral managers (including LCM, a TFG Asset Management entity that specialises in below-investment grade, U.S. corporate, broadly-syndicated loans) in satisfying recent "risk retention" rules which were promulgated by U.S. federal regulators pursuant to the Dodd-Frank Act and/or similar rules promulgated by the European Union. TCIP has a limited prior operating history and it may be unable to successfully operate its business or achieve its investment objectives. Tetragon, together with certain third parties, is a significant investor in TCIP's affiliated investment vehicle. TCIP, acting through one or more affiliated investment vehicles, intends to hold a controlling financial interest (or a majority equity interest) in certain of the sponsors (including LCM) and/or co-sponsors of CLOs, which entities also serve as manager and/or co-manager of such CLOs. These controlling financial interests or majority equity interests may cause TCIP to be a majority-owned affiliate of such sponsors or co-sponsors, although there can be no assurance that these sponsors or co-sponsors will be treated as "majority-owned affiliates" of TCIP or its affiliated investment vehicle. TCIP may also endeavor to facilitate compliance with the U.S. "risk retention" rules by using other transactions, structures and alternatives. There can be no assurance that the U.S. or the E.U. "risk retention" rules will not change or be interpreted by regulators in a manner such that TCIP's proposed transactions and arrangements do not facilitate compliance with these rules, or in a manner that otherwise precludes the contemplated transactions or arrangements. If the structures and arrangements established by TCIP were, in the future, determined to subject TCIP, its affiliated investment vehicle, any other Tetragon affiliate or any third-party manager to unacceptable regulatory risk, TCIP's ability to make investments would likely be severely and negatively limited and arrangements with third-party managers may be terminated as a result.

### *TCICM*

In connection with its investment strategy, TCIP, acting through its affiliated investment vehicle, organised TCI Capital Management (TCICM) in 2016 to act as a CLO collateral manager and sponsor of CLO transactions as further described below. In connection with these CLOs, TCICM has, and it is further expected to, enter into a sub-advisory arrangements with third-party CLO managers. In connection with such arrangements, TCICM has entered, and is expected to enter, into a collateral management agreement with the relevant CLO issuer and a sub-advisory agreement or similar services agreement with a third-party CLO manager, whereby such third-party CLO manager will provide sub-advisory services to the applicable CLO portfolio. TCICM

is expected to have limited assets, particularly in its early stages, consisting primarily of the portion of collateral management and incentive fees and other amounts payable to it in respect of CLOs (which are not paid to other parties), CLO collateral management contracts, rights under any sub-advisory contracts and any capital contributed to it. It will rely on services agreements with affiliated entities, and to access CLO risk retention capital from TCIP's affiliated investment vehicle. There is no assurance that any particular investment or other professionals who are performing services under such services arrangements will remain available to TCICM. There can also be no assurance that the risk retention arrangements provided by this construct will be deemed by regulators to satisfy any applicable risk retention requirements.

*Tetragon's private equity investments in asset management companies and joint ventures with third party involvement may result in additional risks and uncertainties.*

Tetragon has invested and may in the future invest in third-party asset managers or grow TFG Asset Management through joint ventures, partnerships and other similar entities. Such investments may give rise to risks not present in investments where a third party is not involved, including the possibility that: (i) Tetragon and such third-party partner or partners may reach an impasse on major decisions that require the approval of all parties; (ii) the third-party partner or partners may have economic or business interests or goals that are inconsistent with those of the Tetragon; (iii) the third party partner or partners may encounter liquidity or insolvency issues or may become bankrupt; (iv) the third-party partners or partners may be able to cause the exit of one or more of the partners or Tetragon from the joint venture, partnership or other similar entity; and (v) the third-party partner or partners otherwise may be in a position to take action contrary to Tetragon's interests. In the case of joint ventures and minority investments, Tetragon and TFG Asset Management would be subject to additional risks and uncertainties relating to governance and controls, in that Tetragon and TFG Asset Management may be dependent upon, and subject to, liability, losses or reputational damage relating to personnel, controls and systems that are not fully under their control. In the event Tetragon makes further strategic investments or acquisitions, TFG Asset Management will be presented with financial, managerial and operational challenges, including the difficulty of integrating personnel, financial, accounting, technology and other systems and management controls. It may also be more difficult for Tetragon to realise a liquidity event with respect to its interest in any such joint venture, partnership or similar entity than to dispose of other types of investments. As a result of these risks, Tetragon may be unable to fully realise its expected return on any such investments.

*Tetragon's investments in TFG Asset Management and its asset management businesses are illiquid and Tetragon's ability to realise its investments in these businesses may be limited.*

Tetragon's investments in TFG Asset Management and its asset management businesses constitute investments in the shares or other ownership interests of privately-held entities for which there is no active trading market. Certain investments are also subject to restrictions on transfer that limit Tetragon's ability to transfer its interests in such asset managers. As part of its current investment strategy, Tetragon aims to grow TFG Asset Management with a view to a possible initial public offering and listing of its shares. Prior to a liquidity event such as a public offering in respect of TFG Asset Management or any of its asset management businesses, Tetragon's ability to realise its investments in these businesses may be limited. Tetragon may be unable to realise these investments at a time that is desirable or advantageous and, if such investments are required to be liquidated quickly, Tetragon may realise less for such investments than their recorded value.

Factors that could affect Tetragon's ability to realise a public offering or other liquidity event with respect to TFG Asset Management or its asset management businesses include, among other things: economic conditions, asset conditions, political and regulatory considerations, listing eligibility and index inclusion requirements, corporate governance concerns and public opinion. Unanticipated developments, including possible delays in obtaining various tax rulings, regulatory approvals or clearances, uncertainty of the financial markets and challenges in establishing infrastructure or processes, could delay or prevent any proposed public offering or liquidity event or cause the proposed offering or event to occur on terms or conditions that are less favorable and/or different than expected. In particular, there can be no assurance that TFG Asset Management will achieve the size necessary for a successful public offering or that the ownership structure or corporate governance of Tetragon and TFG Asset Management will not impede the marketability TFG Asset Management. In addition, even if such offering or liquidity event were to be achieved, Tetragon may not realise some or all of the anticipated benefits from such event. Achieving such a public offering or other liquidity event could result in, among other things, higher expenses than anticipated, a distraction of management's attention from Tetragon's or TFG Asset Management's businesses, loss of control over the divested or partially divested businesses, or other adverse financial and accounting effects.

*The asset management business is subject to extensive regulation.*

Asset management and financial advisory businesses are subject to extensive regulation, which affects TFG Asset Management's activities and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus could result in additional burdens on TFG Asset Management's business. Recent legislative and regulatory changes in the United

States, such as the Dodd-Frank Act, and the European Union, such as the Alternative Investment Fund Managers Directive, the second Markets in Financial Instruments Directive (MiFID II) and the European Market Infrastructure Regulation, could adversely affect TFG Asset Management's business.

*Misconduct of TFG Asset Management employees or by those at its asset management companies could harm TFG Asset Management by impairing its ability to attract and retain clients and subjecting it to significant legal liability and reputational harm.*

There is a risk that TFG Asset Management principals and employees could engage, or be accused of engaging, in misconduct that adversely affects TFG Asset Management's business. TFG Asset Management is subject to a number of obligations and standards arising from its business and its authority over the assets it manages. The violation of these obligations and standards by any of its employees would adversely affect its clients and TFG Asset Management. TFG Asset Management may also be adversely affected if there is misconduct by personnel of its asset management businesses, even though it may be unable to control or mitigate such misconduct. TFG Asset Management's business often requires that it deal with confidential matters of significance to companies in which it may invest. If its employees were improperly to use or disclose confidential information, TFG Asset Management could suffer serious harm to its reputation, financial position and current and future business relationships, as well as face potentially significant litigation. It is not always possible to detect or deter employee misconduct, and the precautions TFG Asset Management takes to detect and prevent this activity may not be effective in all cases. If any TFG Asset Management employees were to engage in misconduct or were to be accused of such misconduct, TFG Asset Management's business and its reputation could be adversely affected.

*Failure by TFG Asset Management to deal appropriately with conflicts of interest in its investment business could damage its reputation and adversely affect its businesses.*

As TFG Asset Management has expanded and as it continues to expand the number and scope of businesses in which it invests, it increasingly confronts potential conflicts of interest relating to its activities. Certain of its funds or vehicles have overlapping investment objectives, including funds that have different fee structures, and potential conflicts will arise with respect to decisions regarding how to allocate investment opportunities among those funds or vehicles. There are similar conflicts of interest created by contemporaneous trading by TFM on behalf of Tetragon and investment managers that are part of TFG Asset Management which are further discussed below. To the extent TFG Asset Management fails to appropriately deal with any such conflicts, it could negatively impact its reputation and ability to raise additional funds or result in potential litigation against it.



### *Risks Relating to Other Tetragon Portfolio Investments*

Tetragon otherwise currently invests or expects to invest its capital, directly and indirectly, in:

- bank loans, generally through subordinated, residual tranches of CLOs;
- real estate, generally through its joint venture with GreenOak;
- equity securities, particularly in event-driven strategies, generally through the Polygon European Equity Opportunity Fund;
- convertible securities, mainly in the form of debt securities that can be exchanged for equity interests, including through the Polygon Convertible Opportunity Fund;
- distressed opportunities securities and instruments, including through the Polygon Distressed Opportunities Fund;
- infrastructure projects through Equitix; and
- mining-industry related equity securities and instruments, including through Hawke's Point.

These portfolio investments are generally subject to various risks, many of which are beyond Tetragon's control, including:

- These securities and instruments are susceptible to losses of up to 100% of the initial investments.
- The performance of these investments may significantly depend upon the performance of the asset manager of funds or products in which Tetragon invests.
- Tetragon may be exposed to counterparty risk.
- The fair value of investments, including illiquid investments, may prove to be inaccurate and require adjustment.
- Adverse changes in international, national or local economic and other conditions could negatively affect investments.
- Tetragon is subject to concentration and geographic risk in its investment portfolio.

- Tetragon's investments are subject to interest rate risk, which could cause its cash flow, the fair value of its investments and its operating results to decrease.
- Tetragon's investments are subject to currency risks, which could cause the value of its investments in U.S. dollars to decrease regardless of the inherent value of the underlying investments.
- The utilisation of hedging and risk management transactions may not be successful, which could subject Tetragon's investment portfolio to increased risk or lower returns on its investments and in turn cause a decrease in the fair value of its assets.
- Tetragon engages in over-the-counter trading, which has inherent risks of illiquid markets, wide bid/ask spreads and market disruption.
- Leverage and financing risk and the use of options, futures, short sales, swaps, forwards and other derivative instruments potentially magnify losses in equity investments.
- Market illiquidity could negatively affect these investments.

*Investments in bank loans through subordinated, residual tranches of CLOs are otherwise subject to numerous risks.*

A significant portion of Tetragon's current investment portfolio consists of subordinated, residual tranches of CLO products, either directly or through TCIP. CLOs are securitised interests in underlying assets assembled by asset managers and divided into tranches based on their degree of credit risk. Residual tranches are the lowest ranking tranche, incurring first losses and are paid last out of the proceeds received by CLOs from their underlying assets.

These investments are specifically subject to various risks, including the following risks.

*These highly subordinated securities are susceptible to losses of up to 100% of the initial investments, including losses resulting from changes in the financial rating ascribed to, or changes in the market value or fair value of, the underlying assets of an investment.*

Tetragon's investments in residual tranches represent leveraged investments in the underlying assets of CLOs. The fair value of these investments could be significantly affected by, among other things, changes in the financial rating ascribed to the underlying assets of a CLO by financial rating agencies, changes in the market value or fair value of the underlying assets, changes in payments, defaults, recoveries, capital gains and losses, prepayment and the availability, prices and interest rate of underlying assets. Moreover, market developments generally (including, without limitation, deteriorating economic outlook, rising defaults and

rating agency downgrades) may impact the fair value of an investment and/or its underlying assets, as Tetragon experienced during the period from the third quarter of 2008 through the first half of 2009. Negative loan ratings migration, specifically migration to Caa1/CCC+ or below, may also place pressure on the performance of certain of Tetragon's investments. Caa1/CCC+ or below rated assets exposure over pre-defined limits in such investments may temporarily or permanently cause cash diversion away from CLO equity tranches (Tetragon's investments) and into the reinvestment of new collateral, and, if significant enough, potential de-leveraging of the CLO. Changes in the market value or fair value of such underlying assets could result in defaults under the terms of the CLO that may in turn reduce or halt the distribution of funds to residual tranche holders or trigger a liquidation of such CLO. The leveraged nature of a residual tranche increases the risk that a change in market conditions or the default of an issuer of underlying assets could result in significant losses. Accordingly, residual tranches may not be paid in full and may be subject to substantial losses, including a loss of 100% of Tetragon's investment in them.

*CLO vehicles generally invest in fixed income securities rated lower than Baa by Moody's or lower than BBB by S&P (or, if not rated, of comparable quality) and may be regarded as predominately speculative with respect to the issuer's continuing ability to meet principal and interest payments.*

The primary asset underlying Tetragon's current CLO portfolio are senior secured loans, although these transactions may allow for limited exposure to other asset classes including unsecured loans, high-yield bonds, emerging market loans or bonds and structured finance securities with underlying exposure to CDO tranches, residential mortgage-backed securities, commercial mortgage-backed securities, trust preferred securities and other types of securitisations. CLO vehicles generally invest in lower-rated fixed income securities that are typically rated below Baa/BBB by Moody's and S&P. Securities that are rated lower than Baa by Moody's or lower than BBB by S&P are sometimes referred to as "high yield". Securities rated Baa or lower are considered by Moody's to have some speculative characteristics. Lower-rated securities may be regarded as predominately speculative with respect to the issuer's continuing ability to meet principal and interest payments. Analysis of the creditworthiness of issuers of lower-rated securities may be more complex than for issuers of higher quality debt securities.

In addition, high-yield or speculative securities may be less liquid and more likely to default than securities of higher credit quality. Lower-rated securities may be more susceptible to losses and real or perceived adverse economic and competitive industry conditions than higher grade securities. The secondary markets on which lower-rated securities are traded are generally less liquid than the market for higher grade securities. Consequently, there may be limited liquidity if a CLO is required to sell or otherwise dispose of its underlying assets. Less liquidity in the secondary trading markets could adversely affect, and cause large fluctuations in, the fair value

of Tetragon's CLO portfolio. Adverse publicity and investor perceptions, whether or not based on facts or fundamental analysis, may decrease the market values and liquidity of lower-rated securities, especially in a thinly traded market.

*Defaults, their resulting losses and other losses on underlying assets (including bank loans) may have a negative impact on the fair value of Tetragon's CLOs and cash flows received.*

A default and any resulting loss as well as other losses on an underlying asset will reduce the fair value of such underlying asset and, consequently, the fair value of the related investment. A wide range of factors could adversely affect the ability of the issuer of an underlying asset to make interest or other payments on that asset. These factors include adverse changes in the financial condition of such issuer or the industries or regions in which it operates; its exposure to counterparty risks; systemic risk in the financial and settlement systems; changes in law and taxation; a downturn in general economic conditions; changes in governmental regulations or other policies; and natural disasters, terrorism, social unrest and civil disturbances. To the extent that actual defaults and losses on the underlying assets of an investment exceed the level of defaults and losses factored into the purchase price of such investment, the value of the anticipated return from the investment will be reduced. The more deeply subordinated the tranche of securities in which Tetragon invests, such as investments in CLO residual tranches, the greater the risk of loss upon a default. Any defaults and losses in excess of expected default rate and loss model inputs, which are based on historical bond default and recovery data, will have a negative impact on the fair value of Tetragon's CLO investments and will reduce the cash flows that Tetragon receives from these investments.

In addition, the underlying assets of CLOs, including bank loans, may require substantial workout negotiations or restructuring in the event of a default or liquidation. Any such workout or restructuring is likely to lead to a substantial reduction in the interest rate of such asset and/or a substantial write-down or write-off of all or a portion the principal of such asset. Any such reduction in interest rates or principal will negatively affect the fair value of Tetragon's CLO portfolio.

*Many of Tetragon's investments in CLOs are and will be illiquid and have values that are susceptible to changes in the ratings and market values of such vehicles' underlying assets, which may make it difficult for Tetragon to sell these holdings.*

The securities issued by CLOs are, in general, privately placed and offer less liquidity than other investment grade or high-yield corporate debt. Other investments that Tetragon may purchase in privately negotiated (also called "over-the-counter" or OTC) transactions may also be illiquid or subject to legal restrictions on their transfer, sale, pledge or other disposition. Adverse publicity

and investor perceptions, whether or not based on facts or fundamental analysis, may also decrease the liquidity of lower rated securities, especially in a thinly traded market. As a result of this illiquidity, Tetragon's ability to sell certain CLO investments quickly, or at all, in response to changes in economic and other conditions and to receive a fair price when selling such investments may be limited, which could prevent Tetragon from making sales to mitigate losses on such investments. In addition, CLOs are subject to liquidation upon the failure of certain tests relating to the underlying assets, which can result in substantial loss of value to the holders of interests in CLOs. Residual tranches are the most illiquid and subordinated class of interests in CLOs and the most likely tranche to suffer a loss of all or a portion of its value in these circumstances.

*The performance of many of Tetragon's CLO investments depends to a significant extent upon the performance of its CLO asset managers.*

Tetragon relies on CLO asset managers (internal and external) to administer and review the portfolios of the underlying assets managed by them. Particularly in the case of residual tranches of CLOs, the actions of the asset managers may significantly affect Tetragon's return on its investments.

The ability of each asset manager to identify and report on issues affecting its CLO portfolio on a timely basis could also affect Tetragon's return on its investments, as Tetragon may not be provided with information on a timely basis in order to take appropriate hedging or other measures to manage its risks in the relevant portfolio. In addition, concentration of a significant number of Tetragon's investments with one or a few asset managers (including, asset managers, if any, affiliated with Tetragon), whether having resulted from industry consolidation or otherwise, could affect Tetragon adversely in the event that the asset manager fails to fulfill its function effectively or at all.

*Many of Tetragon's CLO investments and the related underlying assets are subject to prepayment rights, which could result in Tetragon achieving a lower than expected rate of return on its CLO investments.*

Although Tetragon's valuations and projections take into account certain expected levels of CLO prepayments, underlying assets may be prepaid more quickly than expected. Prepayment rates are influenced by changes in interest rates and a variety of economic, geographic and other factors beyond Tetragon's control and consequently cannot be accurately predicted. Early prepayments give rise to increased reinvestment risk, as the CLO asset manager or Tetragon might realise excess cash from prepayments earlier than expected. If a CLO asset manager or Tetragon is unable to reinvest such cash in a new investment with an expected rate of return at

least equal to that of the investment repaid, this may reduce Tetragon's net income and the fair value of that asset.

*In the event of a bankruptcy or insolvency of an issuer or borrower of underlying assets in which Tetragon invests, a court or other governmental entity may determine that the claims of the relevant CLO are not valid or not entitled to the treatment Tetragon expected when making its initial investment decision.*

Various laws enacted for the protection of creditors may apply to the underlying assets in Tetragon's CLO and bank loan investment portfolio. The information in this and the following paragraph represents a brief summary of certain points only, is not intended to be an extensive summary of the relevant issues and is applicable with respect to U.S. issuers and borrowers only. The following is not intended to be a summary of all relevant risks. Similar avoidance provisions to those described below are sometimes available with respect to non-U.S. issuers or borrowers, but there is no assurance that this will be the case which may result in a much greater risk of partial or total loss of value in that underlying asset.

If a court in a lawsuit brought by an unpaid creditor or representative of creditors of an issuer or borrower of underlying assets, such as a trustee in bankruptcy, were to find that such issuer or borrower did not receive fair consideration or reasonably equivalent value for incurring the indebtedness constituting such underlying assets and, after giving effect to such indebtedness, the issuer or borrower (i) was insolvent; (ii) was engaged in a business for which the remaining assets of such issuer or borrower constituted unreasonably small capital; or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature, such court could decide to invalidate, in whole or in part, the indebtedness constituting the underlying assets as a fraudulent conveyance, to subordinate such indebtedness to existing or future creditors of the issuer or borrower or to recover amounts previously paid by the issuer or borrower in satisfaction of such indebtedness. In addition, in the event of the insolvency of an issuer or borrower of underlying assets, payments made on such underlying assets could be subject to avoidance as a "preference" if made within a certain period of time (which may be as long as one year under U.S. Federal bankruptcy law or even longer under state laws) before insolvency.

Tetragon's CLOs' underlying assets may be subject to various laws for the protection of creditors in other jurisdictions, including the jurisdiction of incorporation of the issuer or borrower of such underlying assets and, if different, the jurisdiction from which it conducts business and in which it holds assets, any of which may adversely affect such issuer's or borrower's ability to make, or a creditors ability to enforce, payment in full, on a timely basis or at all. These insolvency considerations will differ depending on the jurisdiction in which an

issuer or borrower or the related underlying assets are located and may differ depending on the legal status of the issuer or borrower.

*Tetragon is subject to concentration risk in its CLO investment portfolio.*

Although TFM will regularly monitor the concentration of Tetragon's CLO investment portfolio in any one company, investment, CLO, industry, jurisdiction, region or asset class and its exposure to any given CLO asset manager, concentrations of exposure may arise in the CLO portfolio. For example, based on recent trends TFM expects that new CLOs may contain larger residual tranches than have historically been the case. Therefore, in order for Tetragon to continue its current strategy of seeking to hold a majority of the residual tranches in any CLO in which it invests, Tetragon may be required to make larger investments in individual CLOs than it has in the past. This may increase the concentration risk associated with Tetragon's CLO portfolio. The risk that payments on Tetragon's investments could be adversely affected to a significant degree by one default or a series of defaults on debt obligations relating to a particular company, investment, CLO, industry, jurisdiction, region, asset class or asset manager will increase to the extent that Tetragon's CLO investments are concentrated in that company, investment, CLO, industry, jurisdiction, region, asset class or asset manager.

*Tetragon's CLO investments are subject to interest rate risk, which could cause Tetragon's cash flow, fair value of its assets and operating results to decrease.*

The fair value of certain of Tetragon's CLO investments may be significantly affected by changes in interest rates. The company's investments in leveraged loans through CLOs generate LIBOR plus returns and are sensitive to interest rate levels and volatility. Although CLOs are structured to hedge interest rate risk through the use of matched funding, there may be some difference between the timing of LIBOR resets on the liabilities and assets of a CLO, which could have a negative effect on the amount of funds distributed to residual tranche holders. In addition, many obligors have the ability to choose their loan base from among various terms of LIBOR and the Prime Rate thereby generating an additional source of potential mismatch. Furthermore, in the event of a significant rising interest rate environment and/or economic downturn, loan defaults may increase and result in credit losses that may be expected to affect Tetragon's cash flow, fair value of its assets and operating results adversely. In the event the Tetragon Master Fund's interest expense were to increase relative to income, or sufficient financing became unavailable to the Tetragon Master Fund, Tetragon's return on investments and cash available for distribution to Tetragon's shareholders would be reduced. In addition, future investments in different types of instruments may carry a greater exposure to interest rate risk.

*The ability of CLOs in which Tetragon invests to sell assets and reinvest the proceeds may be restricted, which may reduce the yield from Tetragon's investment in those CLOs.*

The ability of CLOs in which Tetragon invests to sell assets and reinvest the proceeds may be restricted. As part of the ordinary management of its portfolio, a CLO may typically dispose of certain of its assets and reinvest the proceeds thereof in substitute assets, subject to compliance with its investment guidelines and certain other conditions, including the terms of the debt securities issued by it. The earnings with respect to such substitute assets will depend on the quality of reinvestment opportunities available at the time and on the availability of assets that satisfy the CLO's investment guidelines and that are acceptable to the asset manager, among other factors. The need to satisfy such guidelines and identify acceptable assets may require the asset manager to purchase substitute assets at a lower yield than those initially acquired or require that the sale proceeds be maintained temporarily in cash, either of which may reduce the yield that the asset manager is able to achieve. This will reduce the return to Tetragon and may have a negative effect on the fair value of Tetragon's CLO assets.

*The modeled cash flow predictions and assumptions used to calculate the IRR and fair value of each CLO investment may prove to be inaccurate and require adjustment.*

TFM utilises investment modeling software to model expected cash flows on Tetragon's CLO investments. These modeled cash flows are then used to calculate the IRR and, using an appropriate discount rate, the fair value of each CLO investment. The modeled cash flows are determined using certain specified assumptions, including without limitation, annual default rates, recovery rates, prepayment rates and reinvestment prices and spreads, as well as their timing and duration, which in certain instances may be several years or otherwise as long as the stated maturity of the investment. These modeled cash flows and assumptions, including discount rates, may prove to be inaccurate and require adjustment. Factors affecting the accuracy of such modeled cash flow predictions include: (1) uncertainty in predicting future market values of certain assets (including, defaulted securities and "excess CCC rated" securities) utilised in determining overcollateralisation or similar ratios, (2) the inability to accurately model collateral manager behavior such as trading gains/losses or cash holding levels, and (3) the divergence over the period covered by the model of assumed variables from realised levels, including reinvestment spreads/prices, the timing and severity of defaults and downgrades, prepayment levels as well as LIBOR and foreign exchange volatility. Determining the appropriate discount rate can be a subjective process and relies upon utilising market data from a variety of third party sources, which may not be available on a consistent basis. In addition, the underlying CLO trustee reports used to assemble applicable investment data for the cash flow models are subject to data entry and other human errors, which may not be immediately discovered, if at all, in the course of TFM's investment portfolio updates and valuation procedures.



*Investments in real estate assets are subject to numerous risks.*

Through GreenOak, Tetragon invests its capital, directly and indirectly, in certain real estate investments. Real estate investments are subject to various risks and fluctuations and cycles in value and demand, many of which are beyond the Tetragon's control. Events which could negatively affect real estate investments include, but are not limited to:

- adverse changes in international, national or local economic and demographic conditions;
- vacancies or our inability to rent space on favorable terms, including possible market pressures to offer tenants rent abatements, tenant improvements, early termination rights or below-market renewal options;
- adverse changes in financial conditions of buyers, sellers and tenants of properties;
- inability to collect rent from tenants;
- competition from other real estate investors with significant capital, including other real estate operating companies, publicly traded REITs and institutional investment funds; and
- fluctuations in interest rates, which could adversely affect our ability, or the ability of buyers and tenants of properties, to obtain financing on favorable terms or at all.

In addition, periods of economic slowdown or recession, rising interest rates or declining demand for real estate, or the public perception that any of these events may occur, could result in a general decline in rents or an increased incidence of defaults among existing leases. If GreenOak cannot operate its properties to meet its financial expectations, its financial condition, results of operations, cash flow, and ability to satisfy its debt service obligations (including, amounts owed to Tetragon) and to make distributions to Tetragon could be adversely affected.

*Real estate investments are generally illiquid, and therefore GreenOak and Tetragon may not be able to dispose of properties when appropriate or on favorable terms.*

The real estate investments made, and to be made, by GreenOak are relatively difficult to sell quickly. Return of capital and realisation of gains, if any, from an investment generally will occur upon disposition or refinance of the underlying property. GreenOak may be unable to achieve its investment objectives by sale, other disposition or refinance at attractive prices within any given period of time or may otherwise be unable to complete any exit strategy. In particular, these risks could arise from weakness in or even the lack of an established market for a property, changes in the financial condition or prospects of prospective purchasers, changes in national or

international economic conditions and changes in laws, regulations or fiscal policies of jurisdictions in which the property is located.

*Certain investment strategies, including real estate co-investments, may limit Tetragon's control over particular investments.*

If Tetragon co-invests in real estate assets with GreenOak, the ability of Tetragon or its investment manager to exercise control over these investments may be limited. As part of these co-investment relationships Tetragon may rely on third-parties to identify investments and may not retain control over which specific investments are made, including the timing of such investments. In addition, the interests of Tetragon's joint venture partners and any persons with which it co-invests may conflict with the interests of Tetragon. There can be no assurance that any such conflict would be resolved in favor of Tetragon and its shareholders and this may negatively affect the market value of the shares.

*Investments in European-listed equity securities are subject to numerous risks.*

Tetragon invests a portion of its capital, directly and indirectly, in certain equity securities, particularly in event-driven strategies, generally through the Polygon European Equity Opportunity Fund. Such investments are subject to various risks, many of which are beyond Tetragon's control. Risks or events which could negatively affect such equity security investments include, but are not limited to:

- increased volatility in the market price and with respect to trading volume of the equity securities;
- increased uncertainty and government intervention in global financial markets;
- leverage and financing risk and the use of options, futures, short sales, swaps, forwards and other derivative instruments potentially magnifying losses; fluctuations in currency exchange rates;
- market illiquidity; and
- exacerbation of the sovereign debt crisis in the Eurozone.

*Investments in convertible securities are subject to numerous risks.*

Tetragon invests a portion of its capital, directly and indirectly, in certain convertible securities, mainly in the form of debt securities that can be exchanged for equity interests, including

through the Polygon Convertible Opportunity Fund. Such investments are subject to various risks, many of which are beyond Tetragon's control. Risk or events which could negatively affect convertible security investments include, but are not limited to:

- declining credit quality of issuers of the convertible securities;
- increased volatility in the market price and with respect to trading volume of the underlying equity into which the convertible securities are convertible;
- leverage and financing risk and the use of options, futures, short sales, swaps, forwards and other derivative instruments potentially magnifying losses;
- fluctuations in interest rates and currency exchange rates; and
- market illiquidity.

*Investments in distressed opportunity securities are subject to numerous risks.*

Tetragon invests a portion of its capital, directly and indirectly, in certain distressed opportunities securities and instruments, including through the Polygon Distressed Opportunities Fund. Such investments are subject to various risks, many of which are beyond Tetragon's control. Risks or events which could negatively affect distressed opportunity investments include, but are not limited to:

- difficulty in obtaining information as to the true condition of the issuer;
- potential for abrupt and erratic market movements and above average price volatility of the securities; and
- potential for litigation.

*Investments in infrastructure projects are subject to various risks.*

Tetragon may invest or intends to invest a portion of its capital, directly or indirectly, in infrastructure projects through Equitix. Investments in infrastructure projects are subject to specific risks including, but not limited to:

- construction risks during the construction phase of the project, including delays, unexpected costs and cost overruns, defects, limitations on the liability of construction contractors and default or insolvency of construction contractors;

- subcontractor risks, including subcontractors failing to provide services sufficient to meet the project's standards for service and default or insolvency of subcontractors;
- financing risks, including interest rate risk, the availability of financing on terms to allow competitive bidding for projects and returns on projects or to refinance existing indebtedness on projects, which may be affected by factors including general economic conditions and financial and credit markets;
- limited diversity because investments are concentrated in a small number of projects, which may cause overall returns to be adversely affected by unfavorable performance of one project;
- public sector procurement policies and procedures, which affect factors including the availability of opportunities to invest in projects, competition for projects and early termination of projects; and
- long investment horizons, which may result in unfavorable returns due to factors including inflation and inaccurate assumptions in modeling for projects.

*Investments in mining-industry related equity securities and instruments are subject to numerous risks.*

Tetragon may invest a portion of its capital, directly or indirectly, mining-industry related equity securities and instruments, including through Hawke's Point. Such investments are subject to various risks, many of which are beyond Tetragon's control. In addition to the risks discussed above associated with equity investments generally, risks or events which could negatively affect mining-industry related equity investments include, but are not limited to:

- Hazards such as fire, explosion, floods, structural collapses, industrial accidents, unusual or unexpected geological conditions, ground control problems, power outages, inclement weather, cave-ins, accidental discharge of hazardous materials, seismic activity, rock bursts and mechanical equipment failure are inherent risks for resource issuers. Safety measures implemented by resource issuers may not be successful in preventing or mitigating future accidents and such issuers may not be able to obtain insurance to cover these risks at economically feasible premiums or at all. Insurance against certain environmental risks is not generally available to resource issuers.
- While a resource issuer may have registered its mineral exploration and mining rights with the appropriate authorities and filed all pertinent information to industry standards, this cannot be construed as a guarantee of title. Prospecting and mining rights may be

subject to prior unregistered agreements, transfers, claims and title may be affected by undetected defects. A successful challenge to the precise area and location of these claims could result in a resource issuer being unable to operate on its properties as permitted or being unable to enforce its rights with respect to its properties. This could result in the issuer not being compensated for its prior expenditures relating to the property.

- Resource activities are subject to extensive controls and regulations imposed by various levels of government around the world that may be amended from time to time. A resource issuer's operations may require licenses and permits from various governmental authorities. There can be no assurance that resource issuers in which Tetragon invests will be able to obtain all necessary licenses and permits or obtain them in a timely manner.
- There is no certainty that expenditures made by resource issuers towards the search and evaluation of metals and minerals will result in discoveries of mineral occurrences. There is no assurance that even if commercial quantities are discovered that a new ore body would be developed and brought into production.
- A resource issuer's ability to reach, maintain or increase production depends not only on its ability to exploit existing properties, but also on its ability to select and acquire suitable properties or prospects for exploitation. Few properties that are explored are ultimately developed into producing mines. Even if a resource issuer reaches production, its ability to perform at expected levels of output will be dependent on a number of factors, many of which may be beyond the issuer's control.
- Commodity prices are unstable and are subject to fluctuation. The price of most commodities is affected by numerous factors beyond the control of resource issuers. Any material decline in commodity prices could result in a reduction of a resource issuer's production revenue. The economics of certain properties and facilities may change as a result of lower commodity prices. All these factors could result in a material decrease in the business activities of any single resource issuer, or resource issuers generally.
- Most resource activities involve making substantial capital expenditures for the acquisition, exploration, development and production of commodities. If a resource issuer has no revenue or if its revenues decline, it may have limited ability to expend the capital necessary to undertake or complete future activities, and may be dependent on various financing transactions or arrangements. Failure to raise adequate financing when needed can have a material adverse effect on an issuer's business.

- Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure and equipment. Reliable roads, bridges, power sources and water supply affect capital and operating costs and the completion of the development of resource projects. Disruptions in the supply of products or services or breakdown or failure of equipment required for their activities in any of the jurisdictions in which resource issuers operate would also adversely affect their business, results of operations, financial condition, cash flows and prospects.
- There are numerous uncertainties inherent in estimating the quality and quantity of mineral deposits, and any cash flows to be potentially derived therefrom, many of which are beyond the control of resource issuers. Actual production, if any, and cash flows derived therefrom, if any, may vary from a resource issuer's expectations and such variations could be material.
- The mining industry is competitive in all of its phases. A resource issuer may be competing with companies that have greater liquidity, greater access to credit and other financial resources, newer or more efficient equipment, lower cost structures, more effective risk management policies and procedures and/or a greater ability than the issuer to withstand losses.
- Mining operations are subject to various laws and regulations governing the protection of the environment, waste disposal, safety and other matters. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, some mining operations may require the submission and approval of environmental impact assessments.
- Mining companies often operate in foreign countries, where there are added risks and uncertainties due to the different economic, cultural and political environments. Mineral exploration and mining activities may be adversely affected by political instability and changes to government regulation relating to the mining industry.

## Operational Risks

### *Risks Relating to Organisational Structure*

*Tetragon has approved a very broad investment objective and TFM has substantial discretion when making investment decisions. In addition, TFM's strategies may not achieve Tetragon's investment objective.*

The established investment objective for Tetragon is very broad. Tetragon's Investment Management Agreement with its investment manager provides that TFM may cause Tetragon to make any investment that TFM in its sole discretion deems consistent with the company's investment objective of generating distributable income and capital appreciation. As a result, TFM has very broad discretion when selecting, acquiring and disposing of investments, including in determining the types of investments that it deems appropriate, the investment approach that it follows when making investments and the timing of investments. The strategies employed by TFM have been modified and altered from time to time, and it is likely that the strategies used by TFM in the future may be different from those presently used, which could result in changes to, and expansion of, Tetragon's investment and underlying asset mix in the future.

*Tetragon's listed shares do not carry any voting rights other than limited voting rights in respect of variation of their class rights.*

Tetragon's voting shares are owned by Polygon Credit Holdings II Limited which is a non-U.S. affiliate of TFM and is ultimately controlled by Reade Griffith and Paddy Dear, who also control TFM. Tetragon's voting shares control the composition of Tetragon's Board of Directors and exercise extensive influence over Tetragon's business and affairs. Under Tetragon's articles of incorporation, holders of the listed non-voting shares are not entitled to vote on any matters relating to Tetragon or to participate in the management or control of its business and affairs. In particular, the non-voting shareholders do not have the right to cause a new investment manager to be appointed, elect or remove members of the Board of Directors, prevent a change of control of Tetragon or propose changes to or otherwise approve its investment objective or strategies. In addition, the non-voting shareholders do not have the right to cause TFM to withdraw from the management of the Tetragon Master Fund. As a result, the non-voting shareholders will not be able to influence the direction of Tetragon's business and affairs, including Tetragon's investment objective, or to cause a change in its management, even if they are unsatisfied with the performance of TFM or the value of the non-voting shares.

As a result of its ownership and the degree of control that it exercises, the holder of Tetragon's voting shares controls the appointment and removal of members of Tetragon's Board of Directors. Under Tetragon's articles of incorporation, a majority of its directors are required to be independent (Independent Directors), satisfying in all material respects the U.K. Corporate

Governance Code definition of that term. However, because the Board of Directors may generally take action only with the approval of five of its directors, the Board of Directors generally are not able to act without the approval of one or more directors who are affiliated with the holder of Tetragon's voting shares. The holder of the voting shares has the right to amend Tetragon's articles of incorporation to change these provisions regarding Independent Directors. As a result of these provisions, the Independent Directors are limited in their ability to exercise influence over Tetragon's business and affairs.

*Tetragon's organisational, ownership and investment structure creates significant conflicts of interest that may be resolved in a manner which is not always in the best interests of Tetragon or its shareholders*

Tetragon's organisational, ownership and investment structure involves a number of relationships that give rise to conflicts of interest between Tetragon and the non-voting shareholders, on the one hand, and TFM and its principals, on the other hand. The management and control of TFM is vested in its general partner, Tetragon Financial Management GP LLC, which is ultimately controlled by Reade Griffith and Paddy Dear, who also control the holder of TFG's voting shares and are the voting members of TFM's investment and risk committees. In certain instances, the interests of TFM and its principals differ from the interests of Tetragon and the other non-voting shareholders, including with respect to the types of investments made, the timing and method in which investments are exited, the timing and amount of distributions to and by Tetragon, the reinvestment of returns generated by investments and the appointment of outside advisors and services providers. There can be no assurance that any such conflict would be resolved in favor of Tetragon and the non-voting shareholders and this may negatively affect the market value of the non-voting shares.

*Tetragon's directors and its administrator may have conflicts of interest in the course of their duties*

The members of Tetragon's Board of Directors and its administrator may also, from time to time, provide services to, or be otherwise involved with, other investment programs established by parties other than Tetragon which may have similar objectives to those of Tetragon. It is therefore possible that any of them may, in the course of business, have potential conflicts of interest with Tetragon. In addition, subject to applicable law and the provisions of Tetragon's articles of incorporation and its Investment Management Agreement, any persons providing services to Tetragon (including members of the Board of Directors) may deal, as principal or agent, with Tetragon.

*The listed Tetragon entity does not have any operations, and its only source of cash will be the investments that it makes through the Tetragon Master Fund. Its ability to pay its*



*expenses and dividends will depend on it receiving distributions from the Tetragon Master Fund.*

Tetragon depends on the Tetragon Master Fund to distribute cash to it in a manner that allows it to meet its expenses as they become due and to make distributions to its non-voting shareholders. The Tetragon Master Fund is not required to make any distributions to Tetragon, except upon final liquidation, even if it has distributable cash. The ability of the Tetragon Master Fund to make cash distributions to Tetragon will depend on a number of factors, including, among others, the actual results of operations and financial condition of the Tetragon Master Fund and its investments, restrictions on cash distributions that are imposed by applicable law or the articles of incorporation of the Tetragon Master Fund, the timing and amount of cash generated by investments that are made by the Tetragon Master Fund, any contingent liabilities to which the Tetragon Master Fund may be subject, the amount of taxable income generated by the Tetragon Master Fund and other factors that the Tetragon Master Fund's board of directors and TFM deem relevant. If Tetragon does not receive cash distributions from the Tetragon Master Fund or if the Tetragon Master Fund does not receive cash distributions from its investments, Tetragon may not be able to make the cash distributions it intends to make to its non-voting shareholders.

Although Tetragon currently intends, to the extent it has sufficient cash on hand and profits available for such purpose, to pay an annual dividend in quarterly installments, all distributions will be made at the discretion of Tetragon's Board of Directors, based on the recommendation of TFM and subject to the approval of the voting shares of Tetragon. Among other things, the level of dividend, if any, will depend on Tetragon's earnings, financial condition, fair value of its assets and such other factors as may be relevant from time to time, including limitations under The Companies (Guernsey) Law, 2008, as amended.

*Tetragon or the Tetragon Master Fund may issue additional securities that dilute existing holders of Shares.*

Under Tetragon's articles of incorporation, Tetragon may issue additional securities, including non-voting shares, and options, rights, warrants and appreciation rights relating to Tetragon's securities for any purpose. Tetragon is not required under Guernsey law to offer any such shares or other securities to existing non-voting shareholders on a preemptive basis. Therefore, it may not be possible for existing non-voting shareholders to participate in such future issues, which may dilute the existing non-voting shareholders' interests in Tetragon. The Tetragon Master Fund will have the power to issue additional securities under its articles of incorporation. Investors in such securities may have rights and privileges more favorable than investors in the listed non-voting shares. Any such issuance by Tetragon or the Tetragon Master Fund would dilute investors' indirect interests in the Tetragon Master Fund and could cause the market price of the listed non-voting shares to decline.

*Tetragon is not, and does not intend to become, regulated as an investment company under the U.S. Investment Company Act and related rules.*

Tetragon has not been and does not intend to become registered as an investment company under the U.S. Investment Company Act of 1940 and related rules. The Investment Company Act and related rules provide certain protections to investors and impose certain restrictions on companies that are registered as investment companies. Tetragon currently conducts, and intends to continue to conduct, its business such that none of the restrictions of the Investment Company Act is or will be applicable to Tetragon or the Tetragon Master Fund.

*Tetragon's listed non-voting shares are subject to restrictions on transfers to any non-voting shareholder located in the United States or who is a U.S. person, which may impact the price and liquidity of the shares.*

Tetragon's listed non-voting shares have not been registered in the United States under the Securities Act or under any other applicable securities law and are subject to restrictions on transfer contained in such laws and under regulations under the U.S. Employee Retirement Income Security Act of 1974, as amended (ERISA).

There are additional restrictions on the resale of the listed non-voting shares by shareholders who are located in the United States or who are U.S. persons and on the resale of shares by any non-voting shareholder to any person who is located in the United States or is a U.S. person. These restrictions include that each non-voting shareholder who is located in the United States or who is a U.S. person must be a "Qualified Purchaser" or a "Knowledgeable Employee" (each as defined in the U.S. Investment Company Act of 1940), and, accordingly, that non-voting shares may be resold to a person located in the United States or who is a U.S. person only if such person is a "Qualified Purchaser" or a "Knowledgeable Employee" under the Investment Company Act. These restrictions may adversely affect overall liquidity of the listed non-voting shares.

*Non-voting shareholders' ability to invest in the Tetragon shares or to transfer any shares held by them may be limited by restrictions imposed by ERISA regulations, Tetragon's articles of incorporation and other tax considerations.*

Except with respect to certain U.S. persons who were investors in Tetragon prior to the listing of the non-voting shares, Tetragon has restricted the ownership and holding of the non-voting shares so that none of its assets will constitute "plan assets" of any (i) "employee benefit plan", (ii) a plan subject to Section 4975 U.S. Internal Revenue Code of 1986, as amended or (iii) an entity whose underlying assets are considered to include "plan assets." Tetragon has imposed such restrictions based on deemed representations. If Tetragon's assets were deemed to be "plan assets" of any plan subject to Title I of ERISA or Section 4975 of U.S. Internal Revenue Code,

pursuant to U.S. Department of Labor regulations promulgated under ERISA by the U.S. Department of Labor and codified at 29 C.F.R. Section 2510.3-101 (as modified by Section 3(42) of ERISA), (i) the prudence and other fiduciary responsibility standards of ERISA would apply to investments made by Tetragon and (ii) certain transactions that Tetragon, the Tetragon Master Fund or a subsidiary of the Tetragon Master Fund may enter into, or may have entered into, in the ordinary course of business might constitute or result in non-exempt prohibited transactions under Section 406 of ERISA or Section 4975 of U.S. Internal Revenue Code and might have to be rescinded. Governmental plans, certain church plans and non-U.S. plans, although not subject to Title I of ERISA or Section 4975 of U.S. Internal Revenue Code, may nevertheless be subject to other state, local, non-U.S. or other laws or regulations that would have the same effect as the plan asset regulations so as to cause the underlying assets of Tetragon to be treated as assets of an investing entity by virtue of its investment (or any beneficial interest) in Tetragon and thereby subject Tetragon, the Tetragon Master Fund or TFM (or other persons responsible for the investment and operation of Tetragon's assets) to laws or regulations that are similar to the fiduciary responsibility or prohibited transaction provisions contained in Title I of ERISA or Section 4975 of U.S. Internal Revenue Code.

Each purchaser and subsequent transferee of the listed non-voting shares will be deemed to represent and warrant that no portion of the assets used to acquire or hold its interest in the Shares constitutes or will constitute the assets of any ERISA plan. Tetragon's articles of incorporation provide that any purported acquisition or holding of shares in contravention of the restriction described in such representation will be void and have no force and effect. If, notwithstanding the foregoing, a purported acquisition or holding of non-voting shares is not treated as being void for any reason, the shares will automatically be transferred to a charitable trust for the benefit of a charitable beneficiary and the purported holder will acquire no right in such shares.

#### *Risks Relating to Tetragon's Investment Manager*

*Tetragon's success depends on its continued relationship with its investment manager and its principals. If this relationship were to end or the principals or other key professionals were to depart, it could have a material adverse effect on Tetragon's business, investments and results of operations.*

Tetragon relies exclusively on TFM and its principals and employees for the management of its investment portfolio and supervision of its asset management business. Tetragon is highly dependent on the financial and managerial experience of TFM, its principals and the other investment professionals it employs. If such persons ceased for any reason to participate in the management of Tetragon, the consequence to Tetragon could be material and adverse.

If TFM were to cease to provide services under the Investment Management Agreement or to cease to provide investment management, operational and financial advisory services to Tetragon or the Tetragon Master Fund for any reason, Tetragon could experience difficulty in making new investments, Tetragon's business and prospects could be materially harmed and the value of its existing investments and its results of operations and financial condition would be likely to suffer materially.

*Tetragon is reliant on the skill and judgment of its investment manager in valuing and determining an appropriate purchase price for its investments. Any determinations of value that differ materially from the values Tetragon realises at the maturity of the investments or upon their disposal will likely have a negative impact on Tetragon and its share price.*

Tetragon will be dependent on TFM's assessment of an appropriate acquisition price for, and ongoing valuation of, all of its investments including residual tranches of CLOs and certain other illiquid investments. Since TFM's valuations will be based on assumptions and estimates, not all of which can be confirmed, whether readily or at all, TFM's, and therefore Tetragon's, determinations of fair value of relevant financial assets, including in particular Tetragon's determination of the fair value of residual tranches of CLOs, may differ materially from the values that might have been used if a ready market for those investments existed. In the event that TFM misprices an investment (for whatever reason), the actual returns on the investment may be less than anticipated at the time of acquisition, and a write-down of the carrying value for financial reporting purposes or the NAV of such investment might result. Also the value of the non-voting shares could be adversely affected if TFM's determinations regarding the fair value of these investments are materially higher than the values that Tetragon ultimately realises upon maturity of the investments or upon their disposal.

*Tetragon's arrangements with its investment manager were negotiated in the context of an affiliated relationship and may contain terms that are less favourable than those which otherwise might have been obtained from unrelated parties in an arm's-length negotiation.*

The terms of Tetragon's Investment Management Agreement and Tetragon's investment objective were established by persons who were, at the relevant time, affiliates of TFM and one another. Because these arrangements were negotiated between related parties, their terms, including terms relating to compensation, contractual or fiduciary duties, conflicts of interest, termination rights and TFM's ability to engage in outside activities, including activities that compete with Tetragon, Tetragon's activities and the activities of the Tetragon Master Fund, and limitations on liability and indemnification, may be less favorable than otherwise might have resulted if the negotiations had involved unrelated parties. Persons who acquire the listed non-voting shares will be deemed to have agreed that none of those arrangements constitutes a breach

of any duty that may be owed to them under Tetragon's articles of incorporation or any duty stated or implied by law or equity.

*The holders of Tetragon's listed shares will not be able to terminate the Investment Management Agreement with TFM, and the Investment Management Agreement may only be terminated by Tetragon in limited circumstances.*

The Investment Management Agreement can only be terminated (i) by TFM at any time upon 60 days' notice or (ii) immediately upon Tetragon or the Tetragon Master Fund giving notice to TFM or TFM giving notice to the Tetragon Master Fund or Tetragon in relation to such entity in the event of (a) the party in respect of which notice has been given becoming insolvent or going into liquidation (other than a voluntary liquidation for the purpose of reconstruction or amalgamation upon terms previously approved in writing by the other party) or a receiver being appointed over all or a substantial part or of its assets or it becoming the subject of any petition for the appointment of an administrator, trustee or similar officer, (b) a party committing a material breach of the Investment Management Agreement which causes a material adverse effect on the business of the non-breaching party and (if such breach shall be capable of remedy) not making good such breach within 30 days of service upon the party in breach of notice requiring the remedy of such breach or (c) fraud or willful misconduct in the performance of a party's duties under the Investment Management Agreement.

In the event the Investment Management Agreement is terminated, Tetragon's voting shares must approve any replacement investment manager. The inability to replace TFM may adversely affect the NAV or market price of the Shares.

*The liability of TFM is limited under Tetragon's arrangements with it, and Tetragon has agreed to indemnify TFM against claims that it may face in connection with such arrangements, which may lead TFM to assume greater risks when making investment related decisions than it otherwise would if investments were being made solely for its own account.*

Under the Investment Management Agreement, TFM has not assumed any responsibilities other than to perform the obligations, duties and responsibilities described in the Investment Management Agreement. As a result, the right of Tetragon to recover against TFM may be limited to damages arising out of the performance or non-performance of its responsibilities explicitly provided for in the Investment Management Agreement.

In addition, under the Investment Management Agreement, the liability of TFM is limited to the fullest extent permitted by law to conduct involving fraud or willful misconduct, and TFM is indemnified from liabilities arising from such agreements, other than liabilities arising from such person's fraud or willful misconduct. Accordingly, the rights of Tetragon to recover against

TFM as a result of default by TFM of its obligations under the Investment Management Agreement is limited, and any such recovery may be significantly lower than the loss that Tetragon or the non-voting shareholders have suffered.

*The investment manager does not owe fiduciary duties to Tetragon shareholders. However, these contractual limitations do not constitute a waiver of any obligations that TFM has under applicable law, including the U.S. Investment Advisers Act of 1940 and related rules.*

The obligations of TFM under the Investment Management Agreement are contractual rather than fiduciary in nature. For example, TFM need not disclose to Tetragon anything that comes to its attention in the course of its dealings in any capacity other than as investment manager; it may also enter into transactions with companies in which Tetragon invests, and it will not be liable to account for any profits from any such transaction. However, these contractual limitations do not constitute a waiver of any obligations that TFM has under applicable law, including the Investment Advisers Act of 1940 and related rules.

*The investment manager may devote time and commitment to other activities.*

The investment manager and its affiliates, partners, members, officers, principals and employees devote as much of their time to the activities of Tetragon as TFM deems necessary and appropriate. The investment manager and its affiliates are not restricted from forming additional investment funds, entering into other investment management relationships or engaging in other business activities, even though such activities may be in competition with Tetragon and/or may involve substantial time and resources of TFM and its affiliates. The existence of activities that compete for the time and commitment of TFM may result in Tetragon's investment performance being less favorable than it would have been had resources and personnel been devoted exclusively to Tetragon. This may have a negative impact on the results of operations of Tetragon and the market value of its non-voting shares.

*The fees payable to TFM are based on changes in Tetragon's NAV, which will not necessarily correlate to changes in the market value of its listed shares.*

As Tetragon's NAV will depend on the fair value of Tetragon's investments, Tetragon's NAV per share is expected to fluctuate over time with the performance of those investments. The investment manager's compensation is based on NAV. It is possible that at the time of a particular fee calculation Tetragon's will produce a NAV figure for its investments that is higher than the market value of its shares, or that the shares will be traded at a market value below NAV per share for a significant period. As a result, the management and incentive fees paid to TFM on a particular date may be higher than those which would be payable had the NAV been calculated on a different date or under a different methodology.

*The management fee payable to TFM also creates an incentive for it to make investments and take other actions that increase or maintain Tetragon's NAV over the near term even though other investments or actions may be more favourable.*

The investment manager will be entitled to receive a management fee of 1.5% of NAV under the Investment Management Agreement based on Tetragon's NAV. This fee is payable monthly in advance prior to the deduction for accrued incentive fees. This fee is payable irrespective of TFM's operating performance under the agreement. Accordingly, it may create an incentive for TFM to cause Tetragon to make investments and take other actions that increase or maintain the NAV of Tetragon over the near term even though other investments or actions may be more favorable to Tetragon or the non-voting shareholders.

*Tetragon's compensation structure with its investment manager may encourage TFM to invest in high risk investments.*

In addition to receiving a management fee, TFM also receives an incentive fee from Tetragon based upon the appreciation, if any, in the net assets of Tetragon. The investment manager may have an incentive to make investments that are generally more risky than would be the case in the absence of such fee arrangements or to use higher leverage to increase returns on investments. Under certain circumstances, the use of leverage may increase the likelihood of a loss that could materially adversely affect the fair value of Tetragon's assets and the market value of its shares. In addition, because the incentive fee is calculated on a basis which includes unrealised appreciation, it may be greater than if such compensation were based solely on realised gains.

*The compensation of TFM's personnel contains significant performance-related elements, and poor performance by Tetragon or any other entity for which TFM provides services may make it difficult for TFM to retain staff.*

In common with most investment managers, the compensation of TFM's personnel contains significant performance-related elements which are funded by performance related fees payable to TFM by its managed entities in respect of strong performance. Poor performance by Tetragon and the Tetragon Master Fund (any other entities that may be managed by TFM) as well as by TFG Asset Management, may reduce the amount available to pay performance related compensation to TFM's personnel, which may result in those persons seeking other employment. In that case, poor performance of Tetragon and the Tetragon Master Fund may be further compounded by investment manager staff departures. In addition, as the performance related compensation of TFM's personnel will depend on the performance of more than one fund and not just that of Tetragon and the Tetragon Master Fund, poor performance of one managed

entity, other than Tetragon or Master Fund, could adversely impact Tetragon if it led to the departure of investment manager personnel.

*TFM relies on two entities that are part of TFG Asset Management for a broad range of services to support its activities.*

TFM relies on two entities that are part of TFG Asset Management for a broad range of services to support its activities. The services include (i) infrastructure services such as operations, financial control, trading, marketing and investor relations, legal, compliance, office administration, payroll and employee benefits and (ii) services relating to the dealing in and management of investments, arrangement of deals and advising on investments. TFG Asset Management has implemented a cost-allocation methodology with the objective of allocating service-related costs, including to TFM, in a consistent, fair, transparent and commercially based manner. TFG Asset Management then charges fees to TFM for the services allocated to it on a cost-recovery basis that is designed to achieve full recovery of the allocated costs. Tetragon's Independent Directors, who are specifically mandated to approve, among other things, related-party transactions, are required to approve the methodology for allocating costs and in their sole discretion the application of that methodology as part of their oversight processes. As such, the annual cost allocation methodology update and the actual annual cost allocations that result based on these cost methodology policies and procedures are separately approved by the Independent Directors.

*There are conflicts of interest created by contemporaneous trading by TFM and investment managers that are part of TFG Asset Management.*

It is the policy of TFM and the investment managers that are part of TFG Asset Management to allocate new investment opportunities fairly and equitably over time among the funds and other products that they manages. This means that a proposed investment opportunity will generally be allocated among those funds and clients for which participation in the investment opportunity is considered appropriate, taking into account, among other considerations, (i) the risk-reward profile of the proposed investment opportunity in light of the a fund's or other client's objective (whether such objectives are considered solely in connection with the specific investment opportunity or in the context of such fund's or client's overall holdings); (ii) the potential for the proposed investment to create an imbalance in a fund's client's portfolio; (iii) cash balances, liquidity requirements of the funds or clients or anticipated cash flows (including as a result of subscriptions and redemptions or withdrawals, as applicable); (iv) tax considerations; (v) regulatory restrictions that would or could limit a fund's or client's ability to participate in the proposed investment opportunity; and (vi) any need to re-size risk in the funds' and clients' portfolios.



TFM and the investment managers that are part of TFG Asset Management expect to allocate investment opportunities among the funds and clients sharing overlapping investment strategies on a model *pro rata* allocation, or other method deemed appropriate by the portfolio manager responsible for the investment strategy, provided the method is designed to achieve a fair and equitable allocation of investment opportunities among the clients. Client strategies are subject to a *pro rata* allocation pursuant to which investments generally will be allocated among participating clients proportionate to requested order size, real time net asset value and/or commitment amounts, percentage of AUM that the particular investment represents and percentage of AUM that the particular investment represents as compared to other clients, using the most current AUM information as may be practicably obtained, or relevant investment criteria or investment limitations as determined by the client and/or the portfolio manager or other method deemed appropriate (including any priority or defined allocation rights to investment opportunities that may have been granted to clients, as well as other relevant factors, such as minimum allocation amount) and any other relevant issues discussed by any of the firm's senior management committees, which includes the firm's Allocation Committee, Trading and Supervisory Management Committee and Executive Committee(s). Investments for which an order is not completely filled will generally be allocated based on the allocation process used to determine the original allocation.

Since trades firm are generally allocated based on portfolio managers' requested trade amounts, which are determined in their discretion taking into consideration the factors noted above, if a single portfolio manager serves in such capacity to two or more client accounts, a conflict of interest may arise with respect to allocations because such portfolio manager may have an incentive to favor one client account at the expense of another client account. TFM and the investment managers that are part of TFG Asset Management manage this potential conflict of interest by requiring that the Allocation Committee, which includes Legal and Compliance, approve allocations of investments across multiple client accounts.

For purposes of investment allocations and in order to maintain the integrity of the investment strategy and track record of any seed investment by Tetragon, seed investments are not considered proprietary entities for purposes of Tetragon's allocation policies, and are instead allocated investments consistent with client allocations. Accordingly, a client may receive a lesser allocation of an investment as a result of a seed investment. For example, the Polygon Distressed Opportunities Fund which was seeded with Tetragon capital in September 2013, for allocation purposes is viewed the same as other Polygon funds despite the majority of its capital being Tetragon seed capital, as the fund is currently raising third-party capital and building its track record, and is not viewed as a "proprietary" vehicle.

## *Risks Relating to Tetragon's Legal Environment and Regulation*

*Tetragon and its investment manager are subject to extensive regulation.*

As noted above with respect to TFG Asset Management, asset management and financial advisory businesses are subject to extensive regulation, which affects the activities of Tetragon and its investment manager and creates the potential for significant liabilities and penalties. The possibility of increased regulatory focus could result in additional burdens on Tetragon's business. Recent legislative and regulatory changes in the United States, such as the Dodd-Frank Act, and the European Union, such as the Alternative Investment Fund Managers Directive, the second Markets in Financial Instruments Directive (MiFID II) and the European Market Infrastructure Regulation, could adversely affect Tetragon's business.

*Changes in laws or regulations or accounting standards, or a failure to comply with any laws and regulations or accounting standards, may adversely affect Tetragon's business, investments and results of operations.*

Tetragon has adopted the International Financial Reporting Standards as adopted by the European Union (IFRS) as the accounting standard for preparing and reporting Tetragon's accounts and currently determines its NAV in accordance with applicable law and IFRS. Those laws and regulations and standards and their interpretation and application may also change from time to time and those changes could have a material adverse effect on Tetragon's business, investments and results of operations. In particular, a change in GAAP or its interpretation could lead to changes in valuation approach and ultimately an adverse impact on Tetragon's NAV. In addition, a failure to comply with applicable laws or regulations or accounting standards, as interpreted and applied, by any of the persons referred to above could have a material adverse effect on Tetragon's business, investments and results of operations.

*Tetragon may become involved in litigation that adversely affects Tetragon's business, investments and results of operations.*

Tetragon's business and investment activities subject it to risks of becoming involved in litigation. The occurrence of such litigation could divert Tetragon's attention and resources away from its business operations and investment activities and therefore adversely affect Tetragon's business, investments and results of operations. The expense of bringing a claim against or defending against claims and paying any amount pursuant to settlements or judgments would reduce net assets.

*No formal corporate governance code applies to Tetragon under Dutch law and Tetragon will not be bound to comply with the U.K. Combined Code other than as set forth in its articles of incorporation.*

The Dutch corporate governance code only applies to companies incorporated in the Netherlands. Although Tetragon's articles of incorporation require the majority of the Board of Directors to be independent, satisfying in all material respects the standards for independence set forth in the U.K. Corporate Governance Code, this compliance is limited to the composition of Tetragon's Board of Directors and Tetragon will not be bound to comply with other aspects of the U.K. Corporate Governance Code. In addition, this requirement can be changed by a vote of holder of Tetragon's voting shares. Furthermore, no regulatory sanctions would apply to Tetragon if it failed to comply with such standards.

*The rights of the non-voting shareholders and the fiduciary duties owed by the Board of Directors to Tetragon will be governed by Guernsey law and its articles of incorporation and may differ from the rights and duties owed to companies under the laws of other countries.*

Tetragon is an investment company that has been registered under the laws of Guernsey. The rights of its non-voting shareholders and the fiduciary duties that the Board of Directors owes to Tetragon and the non-voting shareholders are governed by Guernsey law and Tetragon's articles of incorporation. As a result, the rights of the non-voting shareholders and the fiduciary duties that are owed to them and Tetragon may differ in material respects from the rights and duties that would be applicable if Tetragon were organised under the laws of a different jurisdiction or if it were not permitted to vary such rights and duties in its articles of incorporation.

*The activities of TCIP create conflicts of interest.*

Certain inherent conflicts of interest arise from the fact that TCIP currently provides investment management services to, and has voting control over, other investment funds and is expected to, in the future, carry on investment activities for other clients, including other investment funds, CLOs, client accounts and proprietary accounts in which Tetragon may have no interest and whose respective investment programs may or may not be substantially similar. Participation in specific investment opportunities may be appropriate at times for both Tetragon and such other investment programs. In particular, the investment program of such other investment funds allow investments in CLOs and other instruments in which Tetragon will invest, which may lead TFM to pursue investment opportunities other than in the way most advantageous to Tetragon or will result in such investment opportunities not being allocated to the company.

In addition, the portfolio strategies employed for other investment programs could conflict with the transactions and strategies employed in managing Tetragon's portfolio and affect the prices and availability of the securities and instruments in which Tetragon invests and the value of Tetragon shares. Conversely, participation in specific investment opportunities may be appropriate (due to, among other things, the same or substantially similar investment objectives),

at times, for both Tetragon and any other client or investment program managed by TCIP. In such cases, participation in such opportunities will be allocated among TCIP, Tetragon and other members of the Tetragon group in accordance with an approved allocation policy. Pursuant to such allocation policy, participation in investment opportunities will generally be allocated on a fair, reasonable and equitable basis, taking into account such factors as:

- the respective investment programs;
- the amount of capital available for new investments;
- relative exposure to short-term and long-term market trends;
- account size and gross portfolio size;
- available transaction terms;
- existing portfolio positions;
- existing portfolio liquidity; and
- other factors known to the relevant portfolio manager that may affect the feasibility of any particular trade.

Such considerations may result in allocations of certain investments on other than a *pari passu* basis.

Without limiting the foregoing allocation policy, it is expected that Tetragon and other members of the Tetragon group will not (i) make any “new issue” CLO residual tranche investment (whether LCM or third-party managed) where one or more vehicles for which TCIP acts as general partner are not an investor in such CLO, or (ii) acquire any “secondary” residual tranches or CLO debt securities unless either (x) Tetragon or any other member of the Tetragon group already holds a majority interest in the residual tranche of such CLO, in which case such entity at its discretion would be allocated the investment unless it is determined that it does not want the investment opportunity or (y) TCIP determines that it does not want the investment opportunity. Finally, it is intended that Tetragon and other clients or investment programs managed by members of the Tetragon group will not hold investments in different competing tranches of the capital structure (*i.e.*, debt securities versus residual tranches) of a particular CLO such that one client holds the residual tranche and another client holds competing debt securities of such CLO.

Furthermore, the vehicles for which TCIP acts as general partner are expected from time to time to make investments in CLOs, and will be entitled to receive payments from, or be charged discounted management fees by, LCM and other collateral managers, and are expected to purchase CLO securities at a discount, as a result of such vehicles also making equity investments in CLOs of such collateral managers. However, to the extent that any such vehicle makes investments on the secondary markets in residual tranches or debt securities of CLOs (including CLOs managed by LCM), the vehicle will generally not be able to obtain discounts regarding management fees or otherwise. In addition, TFG Asset Management or its affiliates will have or receive an interest in CLO managers who manage CLOs in which such vehicles have invested or will invest whether or not such entities are entitled to receive payments from, or be charged discounted management fees by, such collateral managers, and other members of the Tetragon group will be involved in such transactions and receive consideration in respect thereof.

### *Risks Relating to Taxation*

*U.S. investors may suffer adverse tax consequences because Tetragon will be treated as a passive foreign investment company (PFIC) for U.S. federal income tax purposes.*

Tetragon is a PFIC for U.S. federal income tax purposes because of the composition of its assets and the nature of its income. As a result, U.S. investors will be subject, unless a special election is made, to adverse U.S. federal income tax consequences, including additional taxes and interest charges upon disposition of the Shares or upon the receipt of certain distributions.

*Changes to tax treatment of derivative instruments may adversely affect Tetragon and certain tax positions it may take may be successfully challenged.*

The regulatory and tax environment for derivative instruments is evolving, and changes in the regulation or taxation of derivative instruments may adversely affect the value of derivative instruments held by Tetragon and its ability to pursue its investment strategies. In addition, Tetragon may take positions with respect to certain tax issues which depend on legal conclusions not yet resolved by the courts. Should any such positions be successfully challenged by an applicable taxing authority, there could be a material adverse effect on Tetragon.

*Investors may suffer adverse tax consequences if Tetragon or the Tetragon Master Fund is treated as resident in the United Kingdom or the United States for tax purposes.*

Tetragon and the Tetragon Master Fund intend to manage their affairs so that neither of them is subject to regular U.S. federal income taxation on a net income basis or subject to U.K. corporation tax on income and capital gains. However, there can be no assurance that the conditions necessary to prevent any such tax treatment will at all times be satisfied. Any such taxation could adversely affect Tetragon's cash flow and results of operations.

## Financing Risks

*The use of leverage will expose Tetragon to additional levels of risk.*

In addition to the embedded leverage in a CLO, Tetragon may apply leverage to the investments in its portfolio. There are no restrictions on the amount of leverage it may apply for its investments. Tetragon may borrow funds from brokerage firms, banks, other institutions and affiliates of the Voting non-voting shareholder in order to increase the amount of capital available for investment. This debt financing may be secured against some or all of Tetragon's assets. In addition, Tetragon may in effect borrow funds through entering into repurchase and similar agreements, and may "leverage" its investment return with options, futures contracts, swaps, forward contracts and other derivative instruments. Tetragon has entered into certain repurchase agreements to obtain debt financing and may be adversely affected by the termination of any such repurchase agreements. Tetragon may not be successful in obtaining alternate sources of financing on commercially acceptable terms under such circumstances. Should the securities pledged to brokers to secure Tetragon's repurchase agreements significantly decline in value, Tetragon could be subject to a "margin call" pursuant to which Tetragon will be required to either deposit additional funds with the lender or suffer mandatory liquidation of the pledged securities to compensate for the decline in the securities' value, including at prices less than fair value.

The amount of debt financing that Tetragon may have outstanding at any time may be large in relation to its capital. Consequently, the level of interest rates generally and the rates at which Tetragon can borrow in particular will affect the operating results of Tetragon. Tetragon's return on investments and cash available for distribution to non-voting shareholders would be reduced to the extent that its interest expense increases relative to income, such as may occur in the event of a general rise in interest rates, or in the event of losses arising from the sale of assets. Interest rates are highly sensitive to factors beyond Tetragon's control, including, among other things, governmental monetary and tax policies and domestic and international economic and political conditions. Leverage also has the effect of magnifying both profits and losses compared with unleveraged positions.

Although the use of leverage may increase non-voting shareholder returns if Tetragon earns a greater return on leveraged investments than Tetragon's cost of such leverage, the use of leverage exposes Tetragon to additional levels of risk. Where an investment fails to earn a return that equals or exceeds Tetragon's cost of leverage related to such investments, Tetragon's ability to generate cash flow and pay dividends would be adversely affected.

*If Tetragon breaches the covenants under its financing agreements it could be forced to sell assets at price less than fair value.*

Tetragon is or may become party to various loan, repurchase and other financing agreements which are likely to contain financial and other covenants that could, among other things, require it to maintain certain financial ratios. Should Tetragon breach the financial or other covenants contained in any loan, repurchase or other financing agreement, Tetragon may be required immediately to repay such borrowings in whole or in part, together with any attendant costs. If Tetragon does not have sufficient cash resources or other credit facilities available to make such repayments, it may be forced to sell some or all of the assets constituting its investment portfolio. To the extent that Tetragon's borrowings are secured against all or a portion of its assets, a lender may be able to sell those assets. Sales of assets in such circumstances may be at prices less than fair value, realising insufficient funds to repay in full any outstanding borrowings and therefore not yield excess value for Tetragon. Moreover, any failure to repay such borrowings or, in certain circumstances, other breaches of covenants under Tetragon's loan or repurchase agreements could result in Tetragon being required to suspend payment of its dividends.

In addition, Tetragon's financing arrangements may contain cross default provisions such that a default under one particular financing arrangement could automatically trigger defaults under other financing arrangements. Such cross default provisions could therefore magnify the effect of an individual default, and, if such a provision were exercised, result in a substantial loss for Tetragon.

## **Item 9           Disciplinary Information**

There are no disciplinary events that are material to a client's or prospective client's evaluation of TFM or of the integrity of its management.

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

### *Broker-Dealer Registration Status*

TFM and its management persons are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

### *Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Adviser Registration Status*

As a result of providing investment advisory services to certain clients that invest in commodity futures and other commodity interests, TFM and certain affiliated and related entities may from time to time constitute commodity trading advisors and/or commodity pool operators for the purpose of the rules and regulations issued by the U.S. Commodity Futures Trading Commission, or CFTC, under the U.S. Commodity Exchange Act and as such, will rely on certain exemptions from registration with the CFTC under that Act or, in the event that such exemptions cease to apply, register under the applicable regulatory regime. TFM and its management persons are not registered, and do not have any application to register as a futures commission merchant or associated persons of futures commission merchant. TFM and its management persons are not registered, and do not have any application to register as a commodity pool operator with the CFTC.

### *Pooled Investment Vehicles and Regulated Subsidiaries and Sponsors of Limited Partnerships*

TFG Asset Management and certain of their respective affiliates serve as sponsors or syndicators of a number of limited partnerships, including those related to Polygon, LCM, GreenOak, Equitix, Hawke's Point and TCIP funds. In addition, TFG Asset Management and its affiliates, serve as investment advisers of investment vehicles and accounts (e.g., Equitix and TCIP funds) that are, for the most part, pooled investment vehicles. While primarily unregulated, certain such pooled investment vehicles may be registered with regulatory authorities in their home jurisdiction such as the Cayman Islands or in jurisdictions in which interests in such pooled investment vehicles are marketed, such as Denmark, Sweden or Switzerland. As discussed more fully above and in response to Item 11, TFM clients and TFG Asset Management clients may engage in transactions with or alongside each other that have and may in the future give rise to material conflicts of interest. As discussed below, TFM has adopted policies and procedures designed to address conflicts of interest arising between TFM and its affiliates.

### *Material Conflicts of Interest Relating to Other Investment Advisers*

As discussed above, TFM is affiliated with TFG Asset Management, which is separately registered as an investment adviser under the Advisers Act. For further information regarding TFG Asset Management, please refer to TFG Asset Management's Form ADV which is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Certain inherent conflicts of interest arise from the fact TFG Asset Management provides investment management services to, carries on investment activities for, and maintains voting control over, other clients, including, without limitation, other investment funds, separately



managed accounts and co-investment opportunities (for clients which may or may not be current investors in other clients) and proprietary accounts in which Tetragon may or may not have an interest and whose respective investment programs may or may not be the same or substantially similar to Tetragon's investment program. The Investment Manager has adopted policies and procedures designed to address conflicts of interest arising between TFG Asset Management and TFM's clients, as well as address any conflicts of interest in accordance with applicable law, firm policies and procedures, and pursuant to applicable agreements with its clients.

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

TFM has adopted a series of compliance policies and procedures, including a Compliance Manual and a Code of Ethics, or the Code, in order to address actual and apparent conflicts of interest and as required under Rule 204A-1 of the Advisers Act.

##### *Code of Ethics*

The policies and procedures set forth in the Code recognize that as an investment adviser, TFM is in a position of trust and confidence with respect to its clients and has a duty to place the interests of its clients before the interests of TFM and its employees (which for these purposes includes other persons as set out in the Code, including certain consultants, advisors, temporary employees and other persons designated by TFM's Chief Compliance Officer, or CCO). This duty includes an obligation to address or mitigate conflicts of interest, both actual and apparent. The Code also recognizes that as an investment adviser registered under the Advisers Act, TFM has a further obligation to comply with provisions of the Advisers Act as well as the other U.S. federal securities laws.

All employees of TFM and any other persons who are subject to its supervision and control (including members of the employee's household such as spouses and dependent children and certain other family members, collectively related persons) must abide by the Code as adopted. The Code sets forth standards of ethical conduct and ensures that TFM fulfills its role as a fiduciary to its clients.

The Code covers the following topics, among others: (i) guidelines and standards for business conduct, including obligations to address and mitigate apparent and actual conflicts of interest and to comply with the provisions of the Adviser's Act and other U.S. federal securities laws; (ii) personal trading procedures, including pre-clearance and reporting obligations, or the Personal Investment Policy; (iii) limitations on, and reporting of, gifts and entertainment; (iv) engaging in outside business activities; and (v) limitations on, pre-clearance and reporting of political contributions. On an annual basis, TFM requires all employees to certify that they have read and are in compliance with the Code, including as it applies to their related persons, where relevant.

A copy of the Code will be provided to clients and their existing or prospective investors upon request. To request a copy, please email TFM's Compliance Group at [compliance@polygoninv.com](mailto:compliance@polygoninv.com).

### *Personal Investment Policy*

Under the Code and TFM policy, employees are prohibited from trading in securities of any company while in possession of material, non-public information. This prohibition applies to Tetragon-related securities, as well as other issuers. The Code also includes a personal securities investment and reporting policy. This policy, among other things, significantly restricts an employee's ability to engage in personal securities transactions and requires employees to disclose all brokerage or securities accounts held in the employee's name, or over which investment discretion is exercised either directly or indirectly.

Investment personnel of TFM may maintain personal private investment holdings. Certain of these investments are maintained with third-party investment managers who sponsor investment vehicles that in some circumstances compete with TFM's investment programs or clients, or that TFM or certain of its affiliates may recommend to its clients. These personal investments may give rise to potential or actual conflicts of interest between TFM's clients and its affiliates. Accordingly, TFM's personal investment and reporting policies, which require the pre-approval from the Compliance Group on any personal private fund investments, seek to address any potential or actual conflicts of interest relating to personal private investments.

Employees are required to provide duplicate copies of trade confirmations, statements and other information concerning relevant personal securities accounts and investments by notifying their brokerage firm or other financial institution to directly provide such documents and information to TFM's Compliance Group or otherwise makes arrangements for such duplicate account statements to be provided to the Compliance Group. TFM requires pre-clearance prior to effecting any transaction in non-exempt securities, as defined in the Code, or personal private fund investment holdings. Professionals and their related persons generally cannot trade any non-exempt security that (i) is being considered by a portfolio manager for purchase or sale for the benefit of any client; (ii) is currently held by a client; and/or (iii) was sold on behalf of any client within 90 days of the date of the request to trade such security. Any exceptions to the Code's Personal Investment Policy require review and approval by the CCO or the CCO's designee.

The Compliance Group receives and reviews trading and other reports, as well as employee certifications submitted pursuant to the Code to determine that personal trading (as well as other activities subject to compliance oversight) conducted by employees and their related persons is

consistent with the requirements and restrictions set forth in the Code and does not otherwise indicate any improper trading activities.

*Other Conflicts – Gifts/Gratuities/Entertainment; Outside Business Activities; Political Contributions*

The Code also restricts employees' ability to conduct activities outside TFM that may conflict with the interests of TFM's clients. To help mitigate the potential for conflicts of interest related to these practices TFM employees are prohibited from offering, providing or receiving business gifts or entertainment that are excessive or inappropriate or otherwise intended to inappropriately influence the involved parties (*i.e.*, vendors, broker-dealers, consultants, officials, etc.) Additionally, TFM's policies and procedures also specifically restrict and monitor the offering, giving and receiving of gifts and entertainment to or from U.S. and non-U.S. government officials and U.S. representatives of labor organizations. In general, subject to TFM's policy and applicable law, TFM employees are permitted to provide limited business gifts and entertainment. The Compliance Group monitors the offering, giving and receiving of such gifts and entertainment and limits the amount (both as to value and frequency) of gifts and business entertainment that may be exchanged between a TFM employee (or their immediate family members) and involved parties, and requires employees to obtain pre-approval from the Compliance Group for the offering, gifting or receiving of items to or from certain involved parties as well as more generally items above certain value or frequency thresholds. The Compliance Group specifically monitors for any potential conflicts of interest with respect to individual instances of gifts or entertainment, as well as patterns of the same over time, to prevent the interests of TFM and its employees from being placed ahead of the interests of its clients.

Additionally, the Code includes policies and procedures regarding TFM employees' engagement in outside business activities such as service on boards of directors for third parties (including non-profit and other charitable organizations), executorships, trusteeships or other powers of attorney (except with respect to family members) and serving on creditors' committees (except in relation to an employee's obligations to TFM). In general, any such activities that pose a conflict of interest with TFM or TFM's clients are prohibited and pre-approval by the employee's direct supervisor and the Compliance Group is required for accepting any such position. The Compliance Group monitors such activities for any specific conflicts of interest as well as proper pre-approval procedures.

As part of its Code, TFM also maintains policies and procedures that set forth specific prohibitions and pre-clearance requirements for political contributions and other related activity by employees and their related persons. All employees are prohibited from making political contributions to candidates for U.S. state or local office or current U.S. state or local office

holders. Additionally, all employees must obtain approval from the Compliance Group prior to engaging in coordinating or soliciting contributions, or any other fundraising activities. Lastly, the firm requests that employees disclose to the Compliance Group contributions to U.S. federal office holders or candidates for U.S. federal office. These prohibitions and pre-clearance approval requirements for personal contributions, coordination and solicitation of contributions and fundraising also apply to employees' spouses and dependent children. The Compliance Group monitors all such activities for any such contributions that could affect the awarding of public business related to the management of assets.

#### *Material Non-Public Information / Insider Trading*

TFM has implemented the Confidential Information Barrier Policies & Procedures, or the Confidential Information Policies, which outlines certain information barriers within TFM that are reasonably designed to prevent the misuse by TFM and its employees of material information regarding issuers of securities that has not been publicly disseminated or material non-public information. The Confidential Information Policies provide for the proper handling of confidential information (*i.e.*, nonpublic information received or created by TFM in connection with its activities) to prevent violations of law and regulations prohibiting the misuse of such information and to avoid situations that might create an appearance of such misuse.

In general, under the Confidential Information Policies and applicable law, when TFM is in possession of material non-public information related to a publicly-traded security or the issuer of such security, whether acquired unintentionally or otherwise, neither TFM nor its employees are permitted to trade or recommend a trade in the securities of such issuer until such time as TFM is no longer deemed to be in possession of material non-public information. Additionally, TFM's employees are prohibited from disclosing material non-public information to any person, including, but not limited to, other TFM employees (except on a need to know basis) and family members.

#### *Compliance Review*

The firm's Compliance Group receives and reviews trading and other reports and certifications submitted by TFM employees pursuant to the Compliance Manual and the Code to monitor employees' activities subject to Compliance Group oversight, including but not limited to personal trading activities, political contributions and outside business affiliations, for consistency with and adherence to the requirements and restrictions set forth in the Code and applicable law and any other indication of improper behavior.

TFM is firmly committed to making its employees and investors (both current and prospective) aware of TFM's compliance requirements, including TFM's Compliance Manual and Code. All of TFM's employees are proactively provided with the Compliance Manual at the time of hire

and no less than annually thereafter, and each professional must periodically affirm that they have received and have access to the Compliance Manual and Code, and that they have read and understood its provisions. Additionally, the Compliance Group conducts periodic compliance training that addresses the requirements of the Compliance Manual and the other policies and procedures described in this Item 11.

#### *Client Transactions in Securities where Adviser has Material Financial Interest*

TFM may participate in transactions in which it or its affiliates and their respective principals and employees are directly or indirectly interested. In connection with such transactions, such clients, on the one hand, and TFM and its affiliates and their respective principals and employees, on the other hand, can have conflicting interests.

From time to time, TFM or our affiliates can engage in principal transactions with clients (either buying securities from or selling securities to clients). In accordance with anti-fraud provisions of the Advisers Act and TFM's internal compliance policies and procedures, TFM and its affiliates will not, as principal, engage in any principal transaction with a client, without providing appropriate disclosure and obtaining the informed consent of such client prior to the settlement of such transaction.

#### *Principal Transactions*

Generally, principal transactions are when an adviser, acting as principal for its own account, makes a securities transaction (purchase or sale) with a client account.

Amongst other things, a client of TFM can, from time to time, invest in, purchase or receive assets from, sell or otherwise transfer assets to, other investment funds or accounts for which TFM, its affiliates or their respective officers, employees, principals or a joint venture have an interest, serve as investment manager, general partner, service provider or other similar capacity. These transactions may constitute principal transactions for purposes of the Advisers Act.

In accordance with the requirements of the Advisers Act, and TFM's internal compliance policies and procedures, any principal transaction in which TFM or TFM's affiliates may engage is subject to prior disclosure to and written consent from the relevant client(s).

#### *Cross Transactions*

Subject to certain terms and conditions and to the extent permitted by law and as deemed advisable by TFM, TFM may effect rebalancing or internal cross transactions among the funds and other clients (as applicable). Cross trades involve the transfer, purchase or sale of assets from one client to another client without the use of a broker-dealer. TFM can engage in cross trades

where permissible if it determines that such action would be favorable to both clients and that such transaction is in compliance with the policies and procedures it has adopted to mitigate such conflicts.

In addition, some governing documents of TFM or other client accounts impose restrictions or requirements relating to TFM's ability to conduct such transactions. For example, a fund can acquire investments from unrelated sellers and may re-offer a portion of such investments to affiliated investment vehicles. While these transactions with related parties are expected to expand the universe of opportunities that are available to applicable funds and other clients of TFM and certain of its affiliated managers, funds will not necessarily derive a benefit from each such transaction, and the parties to a particular transaction may have divergent interests. Moreover, there may be uncertainties regarding the valuation of investments that are subject to these transactions. For example, from time to time, TFM can undertake a transaction between client accounts in efforts to realign the weightings of two or more client portfolios to be more consistent with their respective investment objectives. In accordance with TFM's internal policies and procedures, any cross trade is approved by senior members of legal, compliance and any other senior investment professionals deemed necessary to assess the potential cross transaction and determine that it is in the relevant clients' best interests. Executed cross trades will be reviewed by the Trade Management Supervisory Committee, referred to further herein as the TMSC. See below for more detailed information regarding the TMSC.

#### *Conflicts of Interest Created by Contemporaneous Trading*

It is the policy of TFM to allocate new investment opportunities fairly and equitably among the funds and other products it manages. This means that a proposed investment opportunity will generally be allocated among those funds and clients for which participation in the investment opportunity is considered appropriate, taking into account, among other considerations, (i) the risk-reward profile of the proposed investment opportunity in light of the a fund's or other client's objective (whether such objectives are considered solely in connection with the specific investment opportunity or in the context of such fund's or client's overall holdings); (ii) the potential for the proposed investment to create an imbalance in a fund's or client's portfolio; (iii) cash balances, liquidity requirements of the funds or clients or anticipated cash flows (including as a result of subscriptions and redemptions or withdrawals, as applicable); (iv) tax considerations; (v) regulatory restrictions that would or could limit a fund's or client's ability to participate in the proposed investment opportunity; and (vi) any need to re-size risk in the funds' or clients' portfolios.

TFM expects to allocate investment opportunities among the funds and clients sharing overlapping investment strategies on a model pro rata allocation, or other method deemed appropriate by the portfolio manager responsible for the investment strategy, provided the

method is designed to achieve a fair and equitable allocation of investment opportunities among the clients. TFM client strategies are subject to a pro rata allocation pursuant to which investments generally will be allocated among participating clients proportionate to requested order size, real time net asset value and/or commitment amounts, percentage of AUM that the particular investment represents and percentage of AUM that the particular investment represents as compared to other clients, using the most current AUM information as may be practicably obtained, or relevant investment criteria or investment limitations as determined by the client and/or the portfolio manager or other method deemed appropriate (including any priority or defined allocation rights to investment opportunities that may have been granted to clients, as well as other relevant factors, such as minimum allocation amount) and any other relevant issues discussed by any of the firm's senior management committees, which includes TFM's Allocation Committee, TMSC and Executive Committee(s). Investments for which an order is not completely filled will generally be allocated based on the allocation process used to determine the original allocation.

Since the firm generally allocates trades on portfolio manager's requested trade amounts, which are determined in their discretion taking into consideration the factors noted above, if a single portfolio manager serves in such capacity to two or more client accounts, a conflict of interest may arise with respect to allocations because such portfolio manager may have an incentive to favor one client account at the expense of another client account. TFM manages this potential conflict of interest by requiring that the Allocation Committee, which includes Legal and Compliance, approve any allocations of investments across multiple client accounts.

For purposes of investment allocations and in order to maintain the integrity of the investment strategy and track record of any seed investment by TFM, seed investments are not considered proprietary entities for purposes of TFM's allocation policies, and are instead allocated investments consistent with client allocations. Accordingly, a client may receive a lesser allocation of an investment as a result of a seed investment. For example, the Polygon Distressed Opportunities Fund which was seeded with TFG capital in September 2013, for allocation purposes is viewed the same as other Polygon funds despite the majority of its capital being the firm seed capital, as the Distressed Fund is currently raising third-party capital and building its track record, and is not viewed as a "proprietary" vehicle.

## **Item 12      Brokerage Practices**

### *Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions*

TFM is responsible for choosing the brokers, dealers and counterparties (each for purposes of this section, a broker) used to execute securities transactions on behalf of TFM's clients, subject to TFM's obligation to obtain the best commission price and execution on any particular

transaction. In selecting brokers, the determinative factor is not always the lowest possible price or commission, but whether TFM believes that the transaction represents the best execution for the client. In making such determination, TFM may weigh a combination of the following factors: qualitative and quantitative execution (including, but not limited to explicit and implicit price and costs of execution, speed of execution, likelihood of execution and likelihood of settlement and size and nature of the order), capabilities with respect to different types of orders and securities (*i.e.*, the broker's full ranges of services), commissions charged by the broker, the broker's financial stability and the quality of service (including availability of margin or leverage, etc.), clearing capabilities, nature and frequency of sales coverage, the broker's reputation and responsiveness to TFM's requests for trade data and other financial information, depth of services provided (including economic or political coverage), arbitrage and option operations, back office and processing capabilities and other factors that assist TFM in determining best execution. TFM will seek competitive commissions and spreads; however, it does not necessarily obtain the lowest possible per transaction rate. TFM will only consider factors relevant to a specific transaction in determining best execution. Broker commissions are monitored on an ongoing basis by portfolio managers, the Firm's Finance Group and the TMSC.

#### *Prime Brokers*

TFM engages the services of certain prime brokers. The services provided by prime brokers to TFM include custody, execution, stock borrowing, clearing, financing, settlement, banking, foreign exchange, reporting and other related services. TFM reserves the right to change the prime brokerage and custodian arrangements and/or, in its discretion, to appoint additional or alternative prime brokers from time to time.

As a custodian, a prime broker is responsible for the safekeeping of all investments and other assets of TFM that are delivered to it in accordance with applicable rules and regulations and the terms of its respective prime brokerage agreement. Custodied assets are held in a manner such that they can be identified at any time by the prime broker as belonging to the client fund(s)/account(s) and as separate from such prime broker's own assets. Custodied assets held as collateral or on margin are generally not segregated from the prime broker's own assets and in the event of the prime broker's insolvency may not be recoverable in full. Cash held for TFM's client fund(s)/account(s) by a prime broker generally will not be treated as client money and will not be segregated from the cash of the prime broker. As a consequence, TFM ranks as a general creditor of such prime broker in the event of its insolvency with respect to such cash. Furthermore, in the event that any of the custodied assets are registered in the name of a prime broker where, due to the nature of the law or market practice of that jurisdiction, it is in the TFM's best interests to do so or it is not feasible to do otherwise, such custodied assets will also not be segregated from the prime broker's own securities and in the event of the prime broker's default may not be as well protected. TFM may agree to indemnify each of the prime brokers



against any expenses, costs, losses, damages and liabilities which a prime broker may sustain in providing these services, except where the same are incurred as a direct result of the fraud, willful default, negligence of, or breach of the relevant prime brokerage agreement by the prime broker.

*Trade Management Supervisory Committee (TMSC)*

In addition to the continuous supervision of assigned portfolios and accounts by relevant persons, TFM has also established a TMSC to provide additional supervision and monitoring of trading activities. The TMSC generally meets quarterly and is comprised of representatives from the following groups: investment professionals, operations, legal, compliance, risk and finance.

The TMSC has the following responsibilities:

- establish and maintain TFM's list of approved traders;
- approve broker-dealers through which TFM's traders may execute client trades, authorizing the removal of brokers from the list of approved brokers, or the Approved Broker List and maintain the current Approved Broker List;
- evaluate the performance of broker dealers on the Approved Broker List including commission rates, execution services, reliability and coverage;
- review brokerage allocation;
- review and approve any soft dollar arrangements;
- review proxy voting;
- review trade errors and determine whether any remedial actions are required;
- review allocation of investment opportunities and aggregation of client trades;
- review securities regulations, or changes and amendments thereto, related to trading;
- review trade errors, trade breaks and failed trades; and
- ensure adequate internal controls are maintained over the Firm's trades and trading activities.

### *Research and other “Soft Dollars”*

An investment adviser or its related persons may receive products and services in addition to brokerage services from a broker-dealer only in a manner consistent with (i) the safe harbor created by Section 28(e) of the Securities Exchange Act of 1934, as amended, and (ii) the firm’s duty to seek best execution for its clients. Services that an investment adviser may receive from such broker-dealers may include research, general market commentary, economic information, trading advice, industry and company commentary, technical data, recommendations, general reports, quotations and other market data or information and the arrangement of meetings with the management of issuers. An investment adviser benefits from these arrangements because it does not have to produce or pay for the research, products or services received. The investment adviser may have an incentive to select or recommend a broker-dealer based on its interest in receiving soft dollar benefits rather than on clients’ interest in receiving most favorable execution. As a result of an investment adviser’s soft dollar practices, clients may be required to pay higher commissions than those charged by other broker-dealers in return for soft dollars. The services received from broker-dealers and paid for by a client may be used by an investment adviser’s related persons, including in servicing other clients. Research and other soft dollar benefits may not always be utilized for the specific client that generated the soft dollar benefits, or in direct proportion to the value paid by each client. Additionally, it may not be possible to place a dollar value on the quality of executions or the soft dollar benefits that the firm receives from broker-dealers effecting client transactions. Accordingly, broker-dealers selected by a firm may be paid commissions for effecting portfolio transactions for client accounts in excess of amounts other broker-dealers would have charged for effecting similar transactions, if a firm determines in good faith that such amounts are reasonable in relation to the value of the soft dollar benefits provided by those broker-dealers, viewed either in terms of a particular transaction or the firm’s overall duty to discretionary accounts.

TFM does not currently enter into “soft dollar” arrangements with its broker-dealers, including for mixed-use products and services. To the extent TFM considers use of “soft dollar” arrangements TFM would amend its policies to ensure compliance with the applicable rules and regulations pertaining to these arrangements, and will only enter into arrangements within the Section 28(e) safe harbor requirements.

### *Trade Errors*

TFM’s Compliance Manual contains policies and procedures for identifying and correcting trade errors. These policies and procedures require that errors effecting client accounts be resolved promptly and fairly and aim to restore the effected client accounts to the appropriate financial position given all relevant circumstances. TFM generally will not correct a trade error that effects a client by causing another client to buy or sell securities. TFM generally will not

reimburse losses suffered by clients resulting from trade errors, unless TFM has breached its standard of care as established by the relevant client document(s).

### *Aggregation of Orders*

From time to time, TFM and/or its affiliates may purchase or sell the same security for several clients at approximately the same time. On such occasions, TFM can (but is not obligated to) combine or “bunch” such orders in order to secure certain efficiencies and results with respect to execution, clearance and settlement of orders. When a bunched order is completely filled, each participating account will generally participate at the average price paid or received on that day for the bunched order, and share in any associated transaction costs, based upon the initial amount requested for the account. When a bunched order is only partially filled, the securities purchased are allocated on a pro rata basis to each client participating in the bunched order based upon the initial amount requested for the client, subject to certain exceptions, and each participating client participates at the average share price for the bunched order on the same day.

Furthermore, TFM and its affiliates will bunch orders in a manner designed to ensure that no particular client or account is favored and that participating clients are treated in a fair and equitable manner over time. Additionally, in bunching orders, TFM will act in a manner it believes is equitable for clients.

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

TFM’s Investment Committee is responsible for the investment management of TFG and the TFG Master Fund portfolio. The investment committee currently sets forth the investment strategy and approves each significant investment by the TFG Master Fund. The Investment Committee generally meets weekly, and has an extended meeting every six weeks.

TFM’s Risk Committee is currently responsible for the risk management of the portfolio and the business and performs active and regular oversight and risk monitoring. The Risk Committee generally meets weekly, and has an extended meeting every six weeks.

The Tetragon Master Fund’s portfolio is reviewed on a regular basis by our investment and risk committee, as discussed above, and the Chief Financial Officer and the Chief Compliance Officer, among others also review the portfolio on a regular basis. These reviews are designed to, among other things, monitor and analyze transactions, positions, investment levels and portfolio risk. The firm’s investment professionals meet regularly to review, among other things, global market conditions, potential risks in the capital markets as well as country, sector, industry or firm level risk factors.

Investors in Tetragon are furnished with annual financial statements examined by independent auditors. Tetragon also generally furnishes such investors (*via* a press release) with written monthly and quarterly reports describing Tetragon's performance.

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

Currently there are no placement or "finders" arrangements for referrals of client funds. To the extent that any such arrangements are entered into in the future, such arrangements will be disclosed to the clients.

If engaged, third-party solicitors in the United States will be registered as broker-dealers with the SEC, and third-party solicitors outside of the United States will be registered with a non-U.S. regulatory body to the extent such registration is required in the applicable non-U.S. jurisdiction.

#### **Item 15      Custody**

Due to TFM's access to client funds and authority to deduct fees and other expenses from a client's account and services by its affiliates, it is deemed under Rule 206(4)-2 of the Advisers Act to have custody of its clients' funds.

TFM utilizes the services of a bank or other qualified custodian (as defined under Rule 206(4)-2) to hold all assets of any of its clients.

TFM also maintains custody of uncertificated securities acquired directly from the issuers in private placements and deposits other funds and securities with its qualified custodian. TFM gives its clients notice in writing of the name and address of the qualified custodian(s) used and the manner in which the assets are maintained, promptly upon the opening of the account and after any change in the information.

Although Rule 206(4)-2 generally requires an investment adviser to ensure that a qualified custodian sends account statements to clients at least quarterly, TFM is generally not subject to this requirement because its fund clients are subject to audit at least annually by an independent auditor that is registered with, and subject to regular inspection by, the Public Firm Accounting Oversight Board. In these cases, TFM distributes audited financial statements to investors within 120 days of the end of the fiscal year.

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

TFM has discretionary authority to manage Tetragon and the Tetragon Master Fund based on its management agreement, as discussed in Item 4 of this brochure. Also as discussed in Item 4,

TFM has the authority to determine the investment strategy to be pursued in furtherance of the investment objective, which strategy may be changed from time to time by TFM in its discretion. (Please see Item 4 above, for a more detailed discussion of TFM's investment discretion.)

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

Rule 206(4)-6 under the Advisers Act requires registered investment advisers that exercise voting authority over client securities to implement proxy voting policies. Because TFM may be deemed to have authority to vote proxies relating to the companies in which it may invest on behalf of our clients, it has adopted a set of policies and procedures in compliance with such rules. To the extent that TFM exercises or is deemed to be exercising voting authority over its clients' securities, the policy is designed and implemented in a manner reasonably expected to ensure that voting with respect to proxy proposals, amendments, consents or resolutions, or collectively proxies, is exercised in a manner that seeks to serve the best interest of TFM's clients.

From time to time, conflicts may arise between the interests of a client, on the one hand and TFM's (or of its affiliates') interests, on the other hand. If TFM determines that it has, or may be perceived to have, a conflict of interest when voting a proxy, it will seek to address matters involving such conflicts of interest on a case-by-case basis in a fair and equitable manner, subject to legal, regulatory, contractual or other applicable considerations. TFM, in its sole discretion, may elect not to vote a proxy if unduly burdensome. The TMSC reviews all proxies relating to client accounts as a part of its evaluation and meeting process.

The policy is available to investors upon request. To request a copy, please e-mail TFM's Compliance Department at [compliance@polygoninv.com](mailto:compliance@polygoninv.com).

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

TFM has never been the subject of a bankruptcy petition and TFM does not believe any financial condition exists that is reasonably likely to impair its ability to meet contractual commitments to its clients.

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

Not applicable.