

# **Folger Hill Asset Management LP**

## **Part 2A of Form ADV**

### **The Brochure**

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This brochure provides information about the qualifications and business practices of Folger Hill Asset Management LP (“Folger Hill”). If you have any questions about the contents of this brochure, please contact us at (212) 407-9100. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

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

## Material Changes

This version of the Part 2A of Form ADV includes changes in each of the Advisory Business (update to total assets under management), Fees and Compensation (description of new “Direct Series” interests and additional detail regarding Manager Expenses), Brokerage Practices (update to soft dollars, mixed-use items, and sibling counterparty relationship), Review of Accounts (update to documents provided to Investors) and Client Referrals and Other Compensation (language update) sections. This filing supersedes Folger Hill’s initial filing with the SEC dated June 8, 2015.

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## Advisory Business

Folger Hill Asset Management LP provides discretionary investment advisory services and serves as investment manager to collective investment vehicles (each a “Fund” or collectively, “Funds” or “Clients”) (limited partners and/or shareholders in the Feeder Funds (as defined below) are referred to as “Investors”).

The Funds consist of Folger Hill Partners LP (the “Domestic Feeder”), Folger Hill Partners Master Fund LP (the “Master Fund”), and Folger Hill Partners (Cayman) Ltd. (the “Offshore Feeder”; the Domestic Feeder and the Offshore Feeder are collectively referred to as the “Feeder Funds”). The Feeder Funds invest all or substantially all of their assets through the Master Fund. Folger Hill GP LLC (the “General Partner”), which is a related entity of Folger Hill, serves as the general partner to the Domestic Feeder and the Master Fund. The Funds are not registered under the Securities Act of 1933, as amended (the “Securities Act”), or the Investment Company Act of 1940, as amended (the “Investment Company Act”), and only interests in the Feeder Funds are

offered to Investors. Accordingly, interests in the Feeder Funds are offered and sold exclusively to investors satisfying the applicable eligibility and suitability requirements either in private transactions within the United States or in offshore transactions. More information about the Funds is available in the Confidential Private Placement Memorandum for the Domestic Feeder (the “Domestic PPM”) and the Confidential Offering Memorandum for the Offshore Fund (the “Offshore OM”; the Domestic PPM and the Offshore OM are collectively referred to as the “PPM”).

Folger Hill was founded in 2014. Folger Hill’s principal owners are Mr. Sol Kumin and Leucadia National Corporation (“Leucadia”). Folger Hill’s regulatory assets under management were \$2.85 billion as of December 31, 2015.

## **Fees and Compensation**

The Feeder Funds employ an expense-based pass-through model and do not pay management fees or any other asset-based fee to Folger Hill, the General Partner, or any of their affiliates. Rather, each Investor will generally be subject to its pro-rata share of pass through expenses (“PTEs”) based on the ratio of the balance of such Investor’s “Capital Account” to the Capital Accounts of all of the Investors in the Feeder Funds. As a general matter, PTEs include both “Fund Expenses” and “Manager Expenses” as included below (note that the list is not exhaustive):

### Fund Expenses

- the Master Fund’s trading related expenses, such as brokerage commissions, financing, interest and borrowing fees and expenses, mark-ups, securities lending fees and expenses, exchange fees and clearing fees, all fees and expenses related to the trading of derivatives, all fees and expenses paid to prime brokers and all other fees or expenses related to the Master Fund’s trading and investment activities, including management and incentive fees paid to Third-Party Managers as described below;
- all costs and expenses related to the organization and initial offering of the Funds (“Organizational Expenses”), as well as all costs and expenses related to the organization of any subsidiary of the Master Fund formed in the future;
- the Funds’ professional expenses including legal, administrative, accounting, auditing, tax preparation expenses (including the fees paid to SS&C GlobeOp, the Funds’ Administrator, accountants, auditors and other service providers), the fees and expenses of the independent directors of the Offshore Feeder, and costs and expenses relating to regulatory compliance, including costs of regulatory filings relating to the Funds;
- all fees charged by placement agents in connection with their placement of interests in the Feeder Funds, which will be specially allocated to the particular Investor introduced to a Feeder Fund by such placement agent;
- any taxes and duties payable in any jurisdiction in connection with the Funds’ investing and trading activities or operations;
- all of the expenses and/or liabilities incurred in connection with or arising out of the Funds’, the General Partner’s or Folger Hill’s activities, including bank fees, indemnification, litigation or other extraordinary or nonrecurring expenses.

### Manager Expenses

- performance-based bonuses paid to Folger Hill employees, including (a) Portfolio Manager (as defined below) bonuses based on the gross performance of their respective portfolios net of any expenses allocated to such Portfolio Manager in Folger Hill's sole discretion ("PM Bonuses") and (b) discretionary performance-based compensation paid to non-Portfolio Manager personnel of the Investment Manager (other than Mr. Kumin);
- all expenses in connection with all employees of the General Partner and Folger Hill, including all base compensation and benefits. Such employee-related expenses may include holiday gift cards and team-building activities such as employee social events, holiday parties and related travel;
- expenses relating to personnel recruiting and severance arrangements of the General Partner or Folger Hill including hiring, on-board and termination of employees (including recruitment fees and retainers paid, fees and expenses relating to participation at industry-related conferences and events, certain up-front compensation and buy-out payments payable to employees, and related legal expenses);
- the General Partner's and Folger Hill's expenses relating to their professional service providers including legal, administrative, accounting, auditing, tax compliance and consulting expenses and fees and expenses relating to compliance matters, including costs of compliance programs, surveillance, regulatory examinations, regulatory or legal inquiries and regulatory filings relating to the General Partner or Folger Hill;
- insurance expenses (both with respect to errors and omissions policies which protect certain employees and affiliates of the General Partner and Folger Hill and in respect of which a Fund is the beneficiary);
- fees or expenses relating to consultants retained by the General Partner or Folger Hill for investment and non-investment purposes, including public relations and other consultants retained by the General Partner or Folger Hill to improve their business;
- communication systems expenses, including expenses relating to advanced telecommunications equipment and data transmission lines;
- information systems and technology expenses incurred by the General Partner and Folger Hill (such as costs associated with employees' home-office technology set-ups and shared remote working locations), including trading systems, order management systems, middle and back office expenses, risk management systems, investor reporting expenses, data warehousing expenses and software development;
- expenses relating to furniture and fixtures (such as artwork and related office furnishings) and the rent and facilities of the General Partner and Folger Hill (for the current offices in New York and Boston, as well as any future offices established by Folger Hill), including leasehold improvements;
- expenses relating to investment research, development of investment strategies, quotation services, data feeds and services employed by the General Partner and Folger Hill;
- expenses relating to the marketing, offering and sale of the Interests, as well as the ongoing investor relations and servicing expenses associated with the Funds;
- investment-related travel and non-investment-related travel (including travel by employees of Folger Hill between its New York and Boston offices), entertainment, meals, occupancy expenses incurred by the General Partner and Folger Hill. Travel expenses may include private, business and first class airline travel expenses to the extent such expenses are

permitted under the travel and expense policies of Folger Hill, as in effect from time to time;

- the General Partner's and Folger Hill's direct and indirect general operating and administrative expenses, including expenses relating to its general operating assets, the General Partner's and Folger Hill's initial technological and operational buildout and a service level agreement with Jefferies LLC, a wholly-owned subsidiary of Leucadia ("Jefferies"), and Leucadia related to human resource functions, the leasing of real estate and other functions;
- principal, interest and financing costs incurred in connection with borrowings made by the General Partner or Folger Hill, including in respect of a credit facility provided by Leucadia;
- any taxes or other government filing fees that the General Partner or Folger Hill is subject to; and
- any other expenses reasonably incurred in connection with the operations and business of the General Partner and Folger Hill.

Allocations of capital made by the Master Fund to managers not affiliated with Folger Hill ("Third-Party Managers") may be subject to additional fees not listed above, including management and incentive fees paid to such Third-Party Managers.

Although the General Partner and Folger Hill believe that the terms on which they provide investment-related, research, administrative, accounting, data processing, technology and other services to the Fund (the costs of which are passed through to the Fund and the Investors) are fair, the arrangements among Folger Hill, the General Partner, the Master Fund, and the Feeder Funds involve inherent conflicts of interest. PTEs include the compensation of Folger Hill personnel who are involved in the determination of PTEs, which represents an inherent conflict of interest. There is no limit on the amount of PTEs that may be charged to the Funds (except that Kumin will not receive (i) any performance-based compensation or (ii) prior to January 1, 2018, any base salary compensation in excess of the minimum amount required by the state of New York's minimum wage requirements (such required base salary, the "Kumin De Minimis Base Salary"), that in either case is charged as a PTE to the Fund, and Portfolio Manager bonuses will not exceed 20% of the gross performance of their respective portfolios net of any expenses allocated to the Portfolio Manager). The General Partner and Folger Hill may use PTEs charged to the Funds to improve various aspects of their business, including for purposes of developing their technology, data processing capabilities, information systems and operations, as well as enhancing their recruitment and retention of Portfolio Managers and other personnel. Such enhancements may benefit the General Partner and Folger Hill in respect of other aspects of their business other than their management of the Funds. Investors will not participate in or benefit from such other aspects of the General Partner's and Folger Hill's business. Any property purchased or intellectual property generated by Folger Hill will be solely the property of Folger Hill, notwithstanding the fact that the Funds and the Investors bore the costs of its acquisition or development.

The General Partner and Folger Hill will use PTEs charged to the Funds to pay for a service level agreement with Jefferies and Leucadia that provides for the provision of services related to human resource functions, the leasing of real estate and other functions. While the General Partner and Folger Hill believe that the terms of this service level agreement are generally no worse than those

that would apply in respect of an agreement for similar services with an unaffiliated third party, the General Partner and Folger Hill have a conflict of interest in using PTEs to engage Jefferies and Leucadia for these services. Additionally, the General Partner and Folger Hill will use PTEs charged to the Funds to pay the principal and interest in connection with a working capital line of credit provided by Leucadia used to fund the expenses of the General Partner, Folger Hill and the Funds. The General Partner and Folger Hill have a conflict of interest in using PTEs to pay any interest amounts to Leucadia in connection with the use of such credit facility.

The General Partner and Folger Hill may accrue PTEs over multiple accounting periods in its sole discretion, and Organizational Expenses in connection with the establishment of their operations and infrastructure and the Fund's organization, initial offering of Interests and commencement of trading and investing activities are amortized over a period of up to 60 months beginning March 2, 2015. The General Partner will generally allocate all PTEs incurred by the Feeder Funds on a pro-rata basis first, among the Feeder Funds based on their respective net asset values and second, among the Investors therein based on their respective Capital Account balances or the aggregate net asset value of their shares, as applicable. However, the General Partner may allocate all or a portion of specific PTEs to one or more of the Feeder Funds or specific Investors in its discretion if it determines in good faith that such allocation would be more equitable than an allocation on a pro-rata basis.

Prior to June 1, 2015, interests were offered in various founders series of interests (each, a "Founders Series") with varying lock-up periods (ranging from no lock-up to a three-year lock-up period). Founders Series interests are generally subject to a 25% soft investor-level gate and lower Profit Allocation Rates than those applicable to Standard Series Interests (as defined below). One series of Founders Series interests is not subject to any lock-up period or investor-level gate and permits Investors holding such interests to make withdrawals as of any month-end upon 30 calendar days' prior written notice. This enhanced liquidity may provide the Investors holding such series of Founders Series interests with the opportunity to withdraw from the Feeder Fund at a time when other Investors may be restricted or limited from withdrawing from the Feeder Fund. Investors that subscribed for Founders Series interests on or prior to April 1, 2015 have been granted a limited right to make additional capital contributions that will be subject to the same terms as the Founders Series interests subscribed for by such Investor on or prior to April 1, 2015.

Interests are currently being offered in various standard series of interests (each, a "Standard Series") as well as in "Direct Series" which are interests being offered through a placement agent arrangement with the sponsor of an advisory/brokerage platform on behalf of its clients. Each of the Standard Series and Direct Series are subject to varying lock-up periods (ranging from no lock-up to a two-year lock-up period). Except for the one series of Founders Series interests with 30-day liquidity described above, after the expiration of any Feeder Fund lock-up period, an Investor in any other Founders Series, Standard Series, or Direct Series will be permitted to withdraw from the Feeder Fund (as of each calendar quarter-end upon 45 days' prior written notice), but may be assessed a 5% withdrawal fee, payable to the respective Feeder Fund, for amounts withdrawn in excess of the 25% soft investor-level gate.

### Performance Based Fees

In addition to the expense-based pass-through model noted in the *Fees and Compensation* section above, the General Partner will receive a performance based fee (the “Profit Allocation”) at the Master Fund level equal to a percentage ranging from 10% for the “Founders Series” of the Feeder Fund, to 15% to 20% (depending on the “Standard Series” of the Feeder Fund) that takes into account realized and unrealized gains and losses, the payment of PTEs and any loss carryforwards. The Profit Allocation generally accrues annually; however, should an Investor partially or fully withdraw capital from a Feeder Fund, the Profit Allocation accrued to date will be assessed accordingly. Certain Investors, including but not limited to, employees of Folger Hill or its affiliates, may not be assessed the Profit Allocation, at the discretion of the General Partner or Folger Hill. More information about the expense-based pass-through model and Profit Allocation is available in the PPM.

The existence of performance based fees, such as the Profit Allocation, could theoretically incentivize Folger Hill to manage the Funds in a more aggressive, risky manner; however, Folger Hill attempts to minimize this risk by ensuring that it is managing the Funds in accordance with stated investment objectives. In addition, as noted, the Profit Allocation received by Folger Hill is based in part on realized and unrealized gains and losses. As a result, the Profit Allocation could be based on unrealized gains that Investors may never realize.

### **Types of Clients**

As noted in the *Advisory Business* section above, Folger Hill provides discretionary investment advisory services to the Funds. Although Folger Hill has the authority to accept capital contributions for lesser amounts, the minimum investment in a Feeder Fund is generally \$5,000,000, and the minimum additional capital contribution is \$1,000,000. Fund Investors must be: (i) “qualified purchasers” within the meaning of the Investment Company Act; (ii) “accredited investors” within the meaning of Regulation D under the Securities Act; and/or (iii) “excluded persons” as defined by the Cayman Islands Monetary Authority.

In addition, each U.S. Investor in the Feeder Funds that is charged the Profit Allocation described in the *Performance Based Fees* section above, must also satisfy the eligibility requirements of a “qualified client” as set forth in Rule 205-3 under the Investment Advisers Act of 1940, as amended (the “Advisers Act”).

From time-to-time, certain firms or individuals that Folger Hill, the General Partner, and/or the Funds conduct business with may invest in the Feeder Funds. There is a potential conflict of interest arising from such investments in that Folger Hill, the General Partner, and/or the Funds may have an incentive to maintain or increase its level of business with such individuals or firms as a result of these investments (e.g., services providers and broker/dealers utilized by Folger Hill). However, Folger Hill evaluates these relationships on an ongoing basis in the context of these investments in order to ensure that these potential conflicts of interests are appropriately addressed.

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

Methods of Analysis, Investment Strategy and Objective. The Funds' investment objective will be to consistently generate attractive, risk-adjusted returns in all market environments and to preserve investor capital. Folger Hill will seek to achieve this investment objective by allocating substantially all of the assets of the Master Fund to the discretionary investment authority of a number of Folger Hill's portfolio managers and their investment teams ("Portfolio Managers") that employ a wide range of long/short equity and related investing strategies. The long/short equity and related investing strategies collectively employed by Portfolio Managers will not be limited in any respect, including but not limited to, in respect of sector, market capitalization, geography or style.

The Master Fund will invest on both a cash and synthetic basis and take short positions for both speculative and hedging purposes. Folger Hill may cause the Master Fund to incur significant leverage in executing the Funds' investment program through both cash and synthetic borrowings, as well as a result of any leverage embedded in any derivative that it trades. In addition to equities and equity indices, the Master Fund may invest in preferred stocks, warrants, fixed income instruments, options, futures and other derivatives and financial instruments to supplement its investment strategies. Folger Hill will have full discretion to allocate capital among its Portfolio Managers. Folger Hill may expand the Funds' investment program over time by incorporating quantitative and other strategies or adding additional asset classes in which the Master Fund may invest or trade.

Risks. There is high risk associated with an investment in the Feeder Funds. An investment in a Feeder Fund should only be made after consultation with independent qualified sources of investment and tax advice. No guarantee or representation is made that the Funds' investment program will be successful, achieve its objective or avoid losses. There is a risk that an investment in a Feeder Fund will be lost entirely or in part. An investment in a Feeder Fund is not a complete investment program and should represent no more than a portion of an Investor's portfolio management strategy. Set forth below is a non-exhaustive list of risks associated with an investment in a Feeder Fund; however, more extensive information about these risks is available in the PPM.

### General Risks

1. Potential loss of investment
2. There is no operating history for the Funds, the General Partner, or Folger Hill
3. Possible positive correlation with stocks and bonds
4. Financing arrangements; availability of credit
5. Competition
6. Devotion of time
7. Non-disclosure of positions
8. Increasing assets managed by Folger Hill may adversely affect performance
9. No formal diversification policies
10. No material limitation on strategies
11. Evolving and new investment strategies
12. Potential inability to trade, report or manage risk due to systems failure
13. Execution of orders



14. Operating expenses
15. Portfolio managers bonuses
16. Trade errors
17. Disruption of business

#### Market Risks

1. Market risks in general
2. Highly volatile markets
3. Availability of investment opportunities
4. Market disruptions; governmental intervention; Dodd-Frank Wall Street Reform and Consumer Protection Act
5. Additional government or market regulation
6. Institutional and counterparty risk

#### Risks Related to the Funds' Investment Techniques

1. Decentralized capital management
2. Importance of individual judgment
3. Security selection
4. Leverage
5. Short sales
6. Hedging techniques
7. Holding period of investment positions
8. Relative value strategies
9. Directional investments
10. Hybrid and other strategies
11. Reliance on corporate management and financial reporting
12. Model risk
13. Revised interpretations could make certain strategies obsolete
14. Third-party managers
15. Securities lending
16. Risk of litigation

#### Risks Related to the Assets Traded

1. Equities
2. Options
3. Stock index options
4. Exchange traded funds
5. Futures/commodities
6. Derivatives in general
7. Regulation of over-the-counter transactions
8. European market infrastructure regulation
9. Forward contracts
10. Fixed-income investments
11. Event driven investing
12. Distressed securities
13. Risks of investment in small capitalization and mid-capitalization issuers

14. Currency exchange exposure and currency hedging
15. International investing
16. Emerging market currencies and securities involve substantial risks

#### *Risks Related to the Structure of the Funds*

1. Limitations on withdrawals
2. Effect of substantial withdrawals of capital
3. Founders Series investments
4. Transaction costs
5. Contingent liabilities
6. Custody
7. Possible indemnification obligations
8. Master-feeder structure
9. Lack of independent experts representing investors
10. Limited partners will not participate in management
11. Profit allocation arrangement
12. Limited regulatory oversight
13. ERISA matters

#### *Tax Risks*

1. Tax considerations
2. Accounting for uncertainty in income taxes
3. U.S. source payments to the Master Fund may be subject to withholding under FATCA

### **Disciplinary Information**

Folger Hill and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to an Investor's evaluation of Folger Hill or its personnel.

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

As noted in the *Advisory Business* section above, the general partner of the Domestic Feeder and Master Fund is Folger Hill GP LLC, which is a related entity of Folger Hill. Additionally, Leucadia is a significant Fund investor and owner in Folger Hill. Refer to the *Conflicts of Interests* section below for more information about Leucadia and its activities with respect to Folger Hill as well as Folger Hill's investment in Third-Party Managers. Finally, the Funds themselves may be considered related entities of Folger Hill.

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

Folger Hill recognizes and believes that (i) high ethical standards are essential for its success and to maintain the confidence of its Investors; (ii) its long-term business interests are best served by adherence to the principle that the interests of Investors come first; and (iii) it has a fiduciary duty to its Investors to act for their benefit. All Folger Hill personnel must put the interests of the Funds and Investors before their own personal interests and must act honestly and fairly in all respects in dealings with Investors. All Folger Hill personnel must also comply with all federal securities laws.

Folger Hill has adopted a Code of Ethics governing personal trading by its personnel. Among other requirements, Folger Hill prohibits the purchasing of single issue equity or debt in employees' personal trading account, requires that all personnel obtain pre-approval for certain personal trades such as transactions in private placements, and sales of legacy positions in equity, debt and similar securities, requires the submission of statements reflecting all trading and holdings information to facilitate the oversight and review of personal trading activities, and requires employees to act as "whistleblowers" when it is believed that a violation of the Code of Ethics has occurred. The Code of Ethics additionally requires the Chief Compliance Officer or her designee to regularly review all personal trading documents and to address any issues noted during the review, including the appropriateness of imposing a penalty for violations of the Code of Ethics. The Code of Ethics is available upon request by contacting Folger Hill at the address or telephone number listed on the first page of this document.

Eligible Folger Hill personnel may hold, either directly or through the General Partner, financial interests in the Domestic Feeder. Additionally, it is possible that Folger Hill personnel may maintain investments in some of the same investments that are held by the Funds, or that they may own investments that are subsequently purchased for the Funds. As noted above, Folger Hill does not permit the purchase of such investments, but employees may have acquired the investments prior to their employment at Folger Hill. In any event, any sales of such investments must be pre-approved by the Chief Compliance Officer in order to prevent a potential conflict with similar trades contemplated for the Master Fund.

## **Brokerage Practices**

### *Investment Discretion*

Folger Hill buys and sells securities and other instruments for the Master Fund on a discretionary basis in a manner consistent with the Funds' investment objectives and restrictions, as set forth in the governing agreements and PPM.

Folger Hill is authorized to make the following determinations among other things, in accordance with the Funds' investment objectives and restrictions without obtaining prior consent from any Investor: (1) which securities or instruments to buy or sell; (2) total amount of securities or instruments to buy or sell; (3) the executing broker or dealer for any transaction; and (4) the commission rates or commission equivalents charged for transactions.

### *Soft Dollars*

Folger Hill will be specifically authorized to and expects to direct brokerage to broker/dealers which furnish or pay for research and services ("Soft Dollar Brokers") within the "safe harbor" provided by Section 28(e) of the Securities Exchange Act of 1934, as amended. The commission sharing arrangements permit Folger Hill to consolidate payments for research and services using accumulated commissions from securities transactions ("Soft Dollar Credits") executed through the Soft Dollar Brokers sponsoring the commission sharing/pooling programs. The research and service providers may be compensated directly by the Soft Dollar Brokers sponsoring the commission pooling arrangements from the Soft Dollar Credits.

The commission sharing/pooling arrangements and other forms of soft dollar programs represent potential conflicts of interest since the Soft Dollar Credits are used to obtain products/services that Folger Hill may otherwise have to obtain with its own funds or decide to do so through the expense-based pass-through model noted in the *Fees and Compensation* section above and explicitly disclose such expenses to Investors. Therefore, the continued provision of such services with Soft Dollar Credits is conditioned upon Folger Hill executing a particular level of transactions through the Soft Dollar Brokers. Notwithstanding the foregoing, Folger Hill will not be required to allocate either a stated dollar or stated percentage of its brokerage business to any Soft Dollar Broker (or any other broker/dealer) for any minimum time period, and it will make good faith determinations as to the value of the research and services obtained through the commission sharing/pooling programs.

*a. Research Products and Services*

The research products/services received by Folger Hill from the Soft Dollar Brokers, either directly or through third-party arrangements between the Soft Dollar Brokers and the third party service provider include, among others, information services on the economy, industries, groups of securities and individual companies, databases, quotation systems, performance measurement reports, bond/stock pricing information, periodicals and exchange fees paid for live market data.

*b. Mixed Use Products and Services*

Folger Hill receives some services that may be used for both research and other, non-research purposes (i.e. “mixed-use products/services”). Folger Hill assumes that the non-research portion of the mixed-use products/services are for its own benefit rather than the benefit of Clients and Investors and therefore makes a good faith effort to determine the relative proportion of such mixed-use products/services related to both research and non-research purposes. The portion of the mixed-use products/services that are deemed to be non-research will be paid directly by Folger Hill, while the remaining research portion shall be paid for using soft dollars.

*Trade Errors*

Folger Hill has established trade processes and procedures designed to reduce the likelihood of errors and, in its sole discretion, will determine what constitutes a trade error.

The Funds will bear the cost of any clerical errors or mistakes of Folger Hill with respect to its placing or executing trades for the Fund. Pursuant to the exculpation of liability and indemnification provisions of the applicable agreements between and among Folger Hill and the Funds, Folger Hill will only be obligated to reimburse the Funds for any trade error resulting from Folger Hill’s fraud, gross negligence or wilful misconduct. Folger Hill, subject to its fiduciary obligations, will determine whether or not any loss resulting from a trade error is required to be reimbursed in accordance with such liability and exculpation provisions. If the General Partner and Folger Hill hold insufficient cash available to reimburse the Funds for a trade error in an instance in which such reimbursement is required, such reimbursement may be charged against future allocations of the Profit Allocation as noted in the *Performance Based Fees* section above. Any trade error that yields a gain will be for the benefit of the Funds.

### Best Execution

Folger Hill seeks to obtain the best execution in making its decisions regarding brokerage commissions in securities transactions for the Master Fund, taking into account the following factors (this is not an exhaustive list): the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution; the financial strength, integrity and stability of the broker; the broker's risk in positioning a block of securities; the quality of, and the broker's expertise in particular markets; the comprehensiveness and frequency of available research services from the broker considered to be of value to Folger Hill; the degree of anonymity in which transactions are completed; and the competitiveness of commission rates in comparison with other brokers satisfying Folger Hill's other selection criteria.

Although Folger Hill generally seeks competitive commission rates and commission equivalents, it will not necessarily pay the lowest commission or equivalent. For example, Folger Hill may execute over-the-counter securities transactions on an agency basis, which may result in the incurrence of two transaction costs for a single trade: a commission paid to the executing broker-dealer in addition to the market maker's mark-up or mark-down.

Investors may include individuals employed by broker/dealers through which Folger Hill transacts, and Folger Hill transacts with a counterparty and prime broker (UBS) who employs a sibling of Mr. Kumin in a client relationship capacity. While potential conflicts of interests may exist given the relationships, Folger Hill does not allocate brokerage transactions based on such relationships. Instead, Folger Hill allocates brokerage transactions pursuant to its fiduciary duty to the Funds and Investors, seeking to obtain best execution on transactions.

A potential conflict of interest may also exist in that certain brokers that execute transactions for the Master Fund also provide prime brokerage services, including capital introduction, for the Funds. Additionally, subject to its obligations to seek best execution, Folger Hill may retain Jefferies or an affiliate to act as an executing broker or as the "Introducing Broker" for the Master Fund. Folger Hill's decision to select and pay fees to its affiliates could present potential conflicts of interest that will be evaluated by its management.

Folger Hill may select, or maintain accounts with, brokers, including prime brokers, whose affiliates engage in a variety of other business relationships with Folger Hill and its affiliates. For example, Folger Hill is authorized to direct commissions and pay fees to certain brokers who may direct or refer investment opportunities or introduce prospective investors to the Fund. Such brokers or their affiliates may include the Fund as investment selections in their affiliated private wealth or asset management platforms or offer various other products designed to provide exposure to the Folger Hill's strategies. Such relationships may result in Folger Hill or its affiliates receiving substantial compensation and could create conflicts of interest in determining which brokers to select and with which to maintain relationships.

### Allocation of Profits and Losses from New Issues

Profits and losses from transactions in new issues (such as initial public offerings) will typically be allocated pro-rata among all eligible Investors based on net asset values. Exceptions to such

allocation may be made at the discretion of Folger Hill for reasons including, but not limited to, prohibitions of law restricting allocations to certain Investors. Folger Hill allocates the profits and losses from new issues only to the Investors in the Feeder Funds who may, pursuant to FINRA Rules 5130 and 5131, participate in such allocations.

#### *Additional Accounts and Allocation of Investment Opportunities*

The General Partner and Folger Hill currently manage a single master-feeder structure, and the General Partner and Folger Hill currently do not allocate investment opportunities among multiple accounts. However, in the future, the General Partner and Folger Hill may sponsor, manage or advise other accounts in the form of other privately offered funds, investment vehicles or separately managed accounts. Such additional accounts may be managed according to strategies similar to or different from the Funds and may invest alongside the Master Fund. Such additional accounts may hold the same or opposite positions as the Funds and may trade in advance of or contemporaneously with the Funds. Additional accounts managed in the future following a substantially similar investment program as the Funds may be structured with different compensation and liquidity terms than the Funds and may afford their investors or account holders more transparency to all or a portion of their strategies, exposures or portfolio than is afforded to Investors. If it begins to manage or advise additional accounts, Folger Hill will seek to allocate orders and investment opportunities in a manner that it believes is in the best interests of all of the portfolios and accounts it manages or advises. Although such allocations may be pro-rata as to the Funds and other participating accounts, they will not necessarily be so, where Folger Hill's allocation policies dictate a different result due to different investment objectives, investment restrictions, risk guidelines, regulatory or tax considerations, available capital or other considerations. In cases where a limited amount of an instrument is available for purchase, the allocation of such issuance, as between the Funds and any such other accounts, may necessarily reduce the amount available for purchase by the Funds. There can be no assurance that a particular order or investment opportunity will be allocated in a particular manner. If conflicts arise in the allocation of investment opportunities, Folger Hill will seek to resolve such conflicts fairly. The foregoing policy does not require that each opportunity be made available to all accounts, leaving significant discretion to Folger Hill. For example, there may be accounts with different investment objectives or different amounts of liquidity, so that the same transaction would not necessarily be made available to all accounts. If it establishes additional client accounts, Folger Hill may, to the extent permitted under applicable law, effect client cross-transactions where Folger Hill causes a transaction to be effected between (i) the Master Fund and (ii) another account advised by Folger Hill or any of its affiliates. In certain instances, such transactions may, in the General Partner's sole discretion, be submitted to a separate "Governance Committee" for evaluation on behalf of the Master Fund.

## **Review of Accounts**

Mr. Todd Rapp, in his capacity as Chief Risk Officer, on a daily basis reviews the Master Fund with regard to positions held, risk exposures such as concentrations and leverage, overall adherence to enterprise-level risk controls, and conformity with stated investment objectives and strategies. Mr. Kumin, Folger Hill's Chief Executive Officer, also participates in such reviews from time to time. Folger Hill's Portfolio Managers are allocated portfolio management responsibilities in respect of portions of the Master Fund and review their holdings on a daily basis. Other Folger Hill professionals, including without limitation the Head Trader and Chief

Financial Officer, as well as third-party service providers to the Master Fund, including without limitation the Administrator and the prime brokers, Morgan Stanley & Co., UBS, and Goldman Sachs & Co., review trading activity and the Master Fund's holdings on a regular basis.

Folger Hill generally provides or makes available to investors upon request:

- Semi-monthly unaudited performance estimates;
- Monthly portfolio risk reports;
- Quarterly investor letter;
- Quarterly disclosure of pass through expenses;
- Annual audited financial statements; and
- Portfolio information is provided by third party risk aggregators for summary level risk reporting to certain Investors.

Additionally, Investor communications will include periodic calls with Folger Hill's Investor Relations Team.

## **Client Referrals and Other Compensation**

At various times and subject to applicable regulatory requirements, Folger Hill has entered into agreements with and may pay solicitors/placement agents/finders ("placement agents") who refer potential Fund Investors. Folger Hill will benefit when Investors are referred because the Profit Allocation described in the *Performance Based Fees* section above is generally based upon a percentage of net profits on Fund assets. Accordingly, the more Fund assets Folger Hill has under management, the higher the Profit Allocation will be to the extent applicable based on the Funds' performance. Similarly, an increased base of Investors is anticipated to benefit all Investors since the expenses associated with the pass-through expense model noted in the *Fees and Compensation* section above will be spread among a larger Investor base.

The compensation paid to placement agents (which may include but are not limited to, Folger Hill's affiliates such as Jefferies) will be allocated to the particular Investor introduced to a Fund by the placement agent. Placement agents used by Folger Hill may also be broker-dealers, or affiliates of broker-dealers, through which Folger Hill transacts Fund trades, although such trading remains subject to the policies and procedures described above in the *Brokerage Practices* section.

Folger Hill effects securities transactions through a number of broker-dealers. By virtue of its conducting business with broker-dealers, Folger Hill may receive certain economic benefits from such broker-dealers which would not be received if it did not transact through the broker-dealers. These benefits may include, but are not limited to: access to an electronic communication network for order entry and account information; receipt of proprietary research; and participation in broker-dealer sponsored research and capital introduction conferences. Folger Hill understands that the benefits received through its relationship with the broker-dealers (including its prime brokers) generally do not depend upon the amount of transactions directed to, or amount of assets custodied by, the broker-dealers.

## **Custody**

With the exception of any investments in “privately offered securities”, per Rule 206(4)-2 under the Advisers Act (i.e., the custody rule), all Fund assets are held in custody by unaffiliated broker/dealers or banks acting in the capacity as “qualified custodians”.

Notwithstanding the foregoing, Folger Hill GP LLC’s role as general partner to the Domestic Feeder and the Master Fund enables Folger Hill personnel to access Fund assets, and Folger Hill has developed procedures that ensure the safeguarding and protection of the assets. Such procedures include among other things, the separation of functions and dual signatory approvals for the distribution of Fund capital.

The Funds are subject to an annual audit and the audited financial statements are distributed to each Investor. The audited financial statements are prepared in accordance with generally accepted accounting principles, are intended to be issued with an unqualified opinion, and distributed to Investors within 120 days of the Funds’ fiscal year ends.

## **Investment Discretion**

Folger Hill buys and sells securities and other instruments for the Master Fund on a discretionary basis in a manner consistent with the Funds’ investment objectives and restrictions, as set forth in the Funds’ governing agreements and the PPM.

Folger Hill is authorized to make the following determinations among other things, in accordance with the Funds’ investment objectives and restrictions without obtaining prior consent from any Investor: (1) which securities or instruments to buy or sell; (2) the total amount of securities or instruments to buy or sell; (3) the executing broker or dealer for any transaction; and (4) the commission rates or commission equivalents charged for transactions.

## **Voting Client Securities**

In recognition of its responsibility with respect to the voting of proxies, Folger Hill has retained a third-party to assist in the proxy voting process and oversees the activities of the third-party. Additionally, Folger Hill has developed a written Proxy Voting policy and procedures that focus on voting proxies in the interest of maximizing shareholder value. Folger Hill has worked with the third-party to develop proxy voting guidelines that will be utilized to vote proxies; however, at times Folger Hill may determine to vote proxies in a manner inconsistent with the guidelines and in doing so will maintain documentation regarding its voting decision. The proxy voting service will maintain a record of all proxy votes cast on behalf of the Funds.

With respect to class actions, it is generally Folger Hill’s policy to participate in any recoveries related to the class actions and to file the Proof of Claim forms accordingly on behalf of the Funds. Folger Hill utilizes a third-party to assist with identifying potential class action recoveries and to process the claims. The third-party is compensated based on a percentage of the proceeds recovered from a class action filing. It should be noted that Investors indirectly bear the cost (i.e. receive a reduced amount of the class action proceeds) of the third-party used for class action recovery services. Folger Hill credits any class action settlements received to current Investors in the Feeder Funds.



A copy of Folger Hill's Proxy Voting policy and the proxy voting record relating to the Funds may be obtained by contacting Folger Hill at the address or telephone number listed on the first page of this document.

## **Financial Information**

Folger Hill has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage the Funds.

## **Conflicts of Interest**

Folger Hill has identified the following inherent and potential conflicts of interest that exist with respect to its management of the Funds (please note that this list is not exhaustive and that more information about the conflicts of interests is available in the PPM):

### General Conflicts

The General Partner has an apparent conflict of interest between its fiduciary duty to the Funds and its selection of its affiliate, Folger Hill, as the Funds' investment manager. Prospective investors must recognize that the Funds were formed specifically as investment products to be managed by Folger Hill, and that the General Partner will not appoint any other investment adviser (other than in respect of any limited allocation of the Funds' portfolio to Third-Party Managers) for the Funds even if doing so might be in the Funds' best interests.

In addition to the Funds, the General Partner and Folger Hill may organize or become involved in other business ventures in the future. Investors will not share in the risks or rewards of the General Partner or Folger Hill, as applicable, in such other ventures. However, such other ventures will compete for the General Partner's and Folger Hill's time and attention, which might create other conflicts of interest. The Funds' Partnership Agreements and Investment Management Agreements do not require the General Partner or Folger Hill to devote any particular amount of time to the Funds. In general, the Partnership Agreements provide the General Partner with broad discretion to determine or resolve of a wide variety of matters, including economic and tax allocations, withdrawals, distributions and other issues, any of which could significantly affect a particular Investor or group of Investors.

### Diversity of Investors

Because Investors may include persons or entities organized in different jurisdictions that may have conflicting investment, tax and other interests with respect to their investment in the Feeder Funds, there may be conflicting interests between Investors relating to the nature of the investments made by the Funds, the structuring of the Master Fund's investments, the purchase by the Master Fund of assets, the timing of investment dispositions and similar matters. Different returns may be realized by different Investors. As a consequence, decisions made by the General Partner (e.g., with respect to taxes and tax planning) may be more beneficial for one Investor than for another Investor. In selecting and making investments, Folger Hill considers the investment objectives of the Funds as a whole, not the investment objectives of any Investor individually. While Folger Hill is responsible for protecting and considering the interests of the Investors, it will consider the interests of the Investors as a whole and not any one particular Investor.

### Information Asymmetry

The employees of Folger Hill, Leucadia and their affiliates each may have access to information that is not generally available to other Investors and, as a result, may be able to act on such additional information (*i.e.*, request withdrawals) that other Investors do not receive.

### Participation in Third-Party Managers

Folger Hill may seek to enter into arrangements for economic participation in the businesses of Third-Party Managers through equity stakes or revenue sharing arrangements (a “Participation Arrangement”). Such Participation Arrangements may create a conflict of interest for Folger Hill in allocating a portion of the Fund’s capital to such Third-Party Managers. While no Participation Arrangement will apply to a Third-Party Manager’s fees in respect of any of the Fund’s capital allocated to such Third-Party Manager, Folger Hill may have an incentive to allocate capital to such Third-Party Manager to assist in establishing the Third-Party Manager’s business.

If Folger Hill elects to enter into a Participation Arrangement, it will offer investors the opportunity to elect to participate on a *pro rata* basis in such Participation Arrangement, based on their interests in the Funds. Folger Hill intends to facilitate such participation by using its commercially reasonable efforts to establish one or more alternative investment vehicles (“AIVs”) for each Third-Party Manager in which participating investors may share in the economics attributable to the Participation Arrangement. Each investor’s participation in such AIVs will be adjusted over time to reflect its then current relative interest in the Fund, and upon a full withdrawal from the Fund, the relevant investor will no longer have an interest in the AIVs or a share in the Participation Arrangement. It is anticipated that the General Partner will receive incentive allocations in respect of an investor’s interest in an AIV applied in a manner consistent with the Profit Allocation, *provided* that the investment results of an AIV will be aggregated with the investment results of the Master Fund for purposes of determining allocations by the Master Fund and such AIV.

Folger Hill will have full discretion to determine whether or not it will enter into a Participation Arrangement with any Third-Party Manager and will have full discretion in negotiating any terms relating to each Participation Arrangement. Folger Hill or one of its affiliates will have complete authority to act on behalf of each AIV. The ability of any investor to share in any Participation Arrangement may be limited by legal, tax, regulatory and other considerations applicable to the Limited Partner, the AIV, the Third-Party Manager, Folger Hill or its affiliates. Folger Hill cannot guarantee that it will be able to accommodate any particular investor’s legal, tax, regulatory or other considerations in respect of the formation and structuring of an AIV and the negotiation of a Participation Arrangement.

### Agreements with Investors

The Funds, the General Partner and/or Folger Hill have and may from time to time enter into agreements with certain Investors (including Leucadia and Mr. Kumin), that may in each case provide for terms of investment that are more favorable to the terms described in the PPM. Such terms may include, in respect of the relevant Investor’s investment in a Fund, the waiver, reduction or rebate of the Profit Allocation, the provision of additional information or reports, more favorable transfer rights and more favorable liquidity rights, including additional permitted dates for withdrawals, the waiver or reduction of withdrawal fees, notice periods or proceed

payment periods, the commitment to permit future investments when a Fund is otherwise closed to new or additional investments, or undertakings designed to address legal, regulatory or other internal policy considerations relevant to such Investor. No such agreement will entitle any other Investor to the same terms of investment.

#### General Leucadia and Jefferies Conflicts

A substantial portion of each of the General Partner, Folger Hill and Folger's Hill's general partner is owned indirectly by Leucadia, which is also the parent company of Jefferies Group LLC (together with its subsidiaries, "Jefferies Group"). Leucadia is a diversified holding company engaged through its consolidated subsidiaries in a variety of businesses, including buying and selling companies and business lines and making strategic investments in other companies and businesses, in each case from which conflicting interests, or duties, may arise. The Jefferies Group is a full service financial institution engaged in a wide range of investment banking and other activities (including, but not limited to, investment management, corporate finance, securities underwriting, trading and research and brokerage activities). Leucadia employs certain officers, directors and employees who also perform the same or similar roles for Jefferies Group. The Funds may invest in, or pursue transactions with, any issuer of a financial instrument in which Leucadia is an investor or potential investor or for whom Jefferies Group is also providing investment banking and other services. None of Leucadia, Jefferies Group or any other part of Leucadia or Jefferies Group has or will have any duty to disclose to the General Partner or Folger Hill or use for the Funds' benefits any investment opportunities or non-public information acquired in the course of engaging in any transaction (on its own account or otherwise), providing services to any other party or otherwise carrying on its business. Leucadia and Jefferies Group may engage in any other activities in the financial markets, including in the asset management and financial services industry, without regard to whether such activities compete with or act in an adverse manner to the Funds.

In addition, certain members of Folger Hill's Board of Managers that do not serve as officers of the General Partner, Folger Hill or Folger Hill's general partner (the "Leucadia Managers") are members of the senior management of Leucadia and Jefferies Group. The Leucadia Managers will be restricted from sharing with Folger Hill or its clients any investment opportunities derived from their involvement with Leucadia's or Jefferies Group's other activities in the asset management or financial services industry due to information wall policies and procedures. The Funds will not have any right to participate in or benefit from the Leucadia Managers' other activities. In addition, although the Leucadia Managers will be subject to information wall policies and procedures and will not have access to portfolio information of the Funds (except with respect to the standard Fund reporting received by all Investors) or have any influence over investment decisions by Folger Hill, they will have general oversight of the General Partner and Folger Hill in their roles as members of the Board of Managers.

#### Jefferies Group and Advisory Roles

Jefferies Group may be advising or may in the future perform investment banking and other services for one or more of the issuers of securities held by the Funds, as a result of which Jefferies Group may acquire material non-public information about such issuers. Jefferies Group has put in place information wall policies and procedures designed to prevent any person who has material non-public information about an issuer from purchasing or selling securities of such

issuer based on such information or from communicating such information to any other person under circumstances in which it is reasonably foreseeable that such person is likely to purchase or sell such securities, including maintaining a restricted list of issuers whose securities are subject to restrictions on trading and other activities. Folger Hill has put in place similar information wall policies and procedures and additional information wall policies and procedures designed to limit the extent to which it has access to information about Jefferies Group's activities, as a result of which Folger Hill is not expected to be subject to trading restrictions resulting from Jefferies Group's activities. However, to the extent that such information wall policies and procedures do not successfully prevent Folger Hill from acquiring information about Jefferies Group's activities or Folger Hill otherwise acquires material non-public information, the Funds may become restricted from acquiring or closing out a position in the relevant issuer or be required or expected to liquidate its position in such issuer, which may result in reduced profits or losses to the Funds.

*Jefferies Group May Publish Research and Market Commentary Which May Negatively Impact the Values of the Funds and the Interests*

Jefferies Group may publish research and market commentary from time-to-time on financial markets and other matters that may influence the Net Asset Value of the Funds, or express opinions or provide recommendations that are inconsistent with purchasing or holding an Interest or the Funds' investment objectives as a whole. Jefferies Group may have published, or may publish in the future, research, market commentary or other opinions that call into question the investment view implicit in an investment in a Fund. Any research, market commentary, opinions or recommendations expressed by these entities may not be consistent with each other and may be modified from time to time without notice. Each Investor should make its own independent investigation of the merits of investing in a Fund.

*Leucadia Investments*

Leucadia made an aggregate investment of \$400 million to the Funds as of March 2, 2015. The "Leucadia Investment" is subject to a lock-up until August 15, 2019, subject to certain release events. These release events include peak to valley loss thresholds, the occurrence of certain key person events, a minimum assets under management threshold, a specified withdrawal by Mr. Kumin, a breach of the Funds' investment guidelines or Leucadia's "side letter arrangement", any breach by Mr. Kumin of his agreements with Leucadia or Folger Hill, any regulatory, accounting or tax changes that are reasonably likely to have adverse consequences on Leucadia or its affiliates or Folger Hill, Mr. Kumin or the Funds becoming subject to any investigation, regulatory review or material litigation that, in each case, is reasonably likely to materially and negatively impact Folger Hill, the Funds or their prospects. In the event that a release event occurs, Leucadia may withdraw all or a portion of the Leucadia Investment in a shorter time frame than applicable to other Investors without regard to any interests of the Funds or the Investors. Further, the withdrawal of Leucadia in connection with a release event will not be subject to any of the restrictions on withdrawal set forth in the PPM (including but not limited to the suspension of Investor withdrawal requests in connection with the occurrence of a Key-Person Event). The Leucadia Investment may constitute a significant portion of the Funds' assets and any such withdrawal of the Leucadia Investment may have a material adverse effect on the Funds' portfolio. Leucadia may make or cause its affiliates or their clients to make additional investments to the Funds in excess of the Leucadia Investment. Such investments may be subject to terms more favorable than those set forth in the PPM. As an Investor, Leucadia, its affiliates or

accounts managed by them may have rights, including information rights with respect to the Funds' exposures and performance that are greater than those provided to other Investors.

While Folger Hill generally exercises investment discretion with respect to the Funds, Folger Hill and the Funds have entered into an agreement with Leucadia which imposes investment guidelines on the Funds' investment activities, the violation of which may constitute a release event in respect of the Leucadia Investment. Although Folger Hill believes that such guidelines are generally appropriate given its current trading strategies, such guidelines may prevent the Funds from taking or maintaining certain positions in respect of its portfolio, or may otherwise constrain investment activity, resulting in the Funds not being able to take advantage of potential profit opportunities in the view of Folger Hill or being exposed to losses.

#### Founders Series Investments

Interests have been offered in five Founders Series which are generally subject to lower Profit Allocation Rates than those applicable to Standard Series interests. In addition, one Series of Founders Series interests permits Investors holding such interests to make withdrawals as of any month-end upon not less than 30 calendar days' prior written notice and is not subject to any lock-up period or the investor-level gate. This enhanced liquidity may provide the Investors holding such Series of Founders Series interests with the opportunity to withdraw from the Feeder Fund at a time when other Investors may be restricted or limited from withdrawing from the Feeder Fund. Additionally, such series of Founders Series interests may constitute a significant portion of the Feeder Fund's assets and create the possibility of such Investors making substantial withdrawals from the Feeder Fund over a short period of time. Such accelerated withdrawals may have a material adverse effect on the Feeder Fund and the Master Fund.