

## **PART 2A OF FORM ADV: FIRM BROCHURE**

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**This brochure provides information about the qualifications and business practices of HCG Fund Management LP. If you have any questions about the contents of this brochure, please contact us at 919-300-7702. 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 HCG Fund Management LP is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**HCG Fund Management LP is registered as an investment adviser with the SEC under the U.S. Investment Advisers Act of 1940, as amended (the “Advisers Act”). SEC registration does not imply a certain level of skill or training.**

## **ITEM 2 – MATERIAL CHANGES**

The following material changes have been made since HCG Fund Management LP's last annual update made on March 31, 2017:

- Item 4: The principal owners of HCG have been updated.
- Item 8: Revised to reflect recent updates and refinements to the investment strategy and risk factors.

## ITEM 3 - TABLE OF CONTENTS

	<u>Page</u>
ITEM 2 – MATERIAL CHANGES .....	1
ITEM 3 - TABLE OF CONTENTS.....	2
ITEM 4 – ADVISORY BUSINESS .....	3
ITEM 5 – FEES AND COMPENSATION .....	5
ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT ..	7
ITEM 7 – TYPES OF CLIENTS .....	8
ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS.....	9
ITEM 9 – DISCIPLINARY INFORMATION .....	21
ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS.	22
ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING.....	23
ITEM 12 – BROKERAGE PRACTICES.....	25
ITEM 13 – REVIEW OF ACCOUNTS.....	26
ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION.....	27
ITEM 15 – CUSTODY .....	28
ITEM 16 – INVESTMENT DISCRETION .....	29
ITEM 17 – VOTING CLIENT SECURITIES.....	30
ITEM 18 – FINANCIAL INFORMATION .....	31

## ITEM 4 – ADVISORY BUSINESS

### General Description of Advisory Fund

HCG Fund Management LP (“HCG” or the “Investment Adviser”) formed in January 2015 and is organized as a limited partnership under the laws of the State of Delaware. The investment activities of HCG are led by Hadi F. Habal and Jose N. Penabad (the “Principals”). HCG is principally owned by MIJ Analytics, LLC and Jenesem, LLC, each wholly owned and controlled by Mr. Penabad and Mr. Habal, respectively. HCG Funds LLC, a Delaware limited liability company, serves as the general partner of HCG.

### Description of Advisory Services and Investment Strategy

HCG serves as the investment manager and provides discretionary investment advisory services to pooled investment vehicles that are not registered under the Investment Company Act of 1940, as amended (the “Investment Company Act”), and the securities of which are not registered under the Securities Act of 1933, as amended (the “Securities Act”) (each a “Fund” and collectively, the “Funds”).

The Funds are organized in a “master-feeder” structure in which a feeder fund invests substantially all of its assets into a master fund, and in turn, the master fund makes investments. The current master-feeder fund structure consists of the following entities:

- HCG Funds Ltd, a Cayman exempted company (the “Offshore Fund”); and
- HCG Digital Finance LP, a Delaware limited partnership (the “Master Fund”).

The Principals are also the owners of the managing members of HCG Partners LLC (the “General Partner”), the general partner with ultimate responsibility for decisions relating to management, operations, and investment decisions made on behalf of the Master Fund, and as delegated by the board of directors of the Offshore Fund.

The Funds’ investment objective is to generate consistent absolute returns over the long-term risk premium, with mitigated downside risk by investing substantially all of its assets in private investment funds vehicles organized by the General Partner or one of its affiliates and managed by the Investment Adviser or one of its affiliates (“Portfolio Funds”). Each Portfolio Fund invests (either directly or indirectly through investments in a trust or similar vehicle) primarily in consumer or business loans, advances, receivables or other financial assets (“Digital Loans”) originated in the United States or outside the United States through internet-based marketplace lending platforms and other internet-based lending platforms (“Digital Lending Platforms”) sponsored by and serviced by third party companies (“Digital Lending Platform Sponsors”) and securities or other financial assets (“Digital Loan Securities”) that are issued by trusts or similar special purpose vehicles (“Digital Loan Security Issuers”) and are collateralized by, or reference or otherwise track the performance of, one or more portfolios of Digital Loans. **There can be no assurance that the Funds will meet their investment objectives.**

Generally, each of the Portfolio Funds will be organized as onshore or offshore limited liability companies, limited partnerships or other entities formed by the General Partner or its affiliates. It is expected that the manager, managing member, directors or general partner of each Portfolio Fund will be, or a similar function will be performed by, the General Partner, the Investment Adviser or their affiliates. Because the Portfolio Funds are generally organized by the General Partner (or its affiliates) for the purposes of facilitating the investment management of assets of the General Partner’s (or its affiliates’) clients, interests in such Portfolio Funds may be held by one or more of the General Partner’s (or its affiliates’) clients, including the Fund. As a general partner, managing member or manager (or similar capacity) of each

Portfolio Fund, the General Partner exercises control over the issuance and transfer or other disposition of the membership interests of such Portfolio Funds.

In providing services to the Funds, among other things, HCG: (i) manages the Funds' assets in accordance with the terms of the applicable Fund's confidential offering memoranda, individual limited partnership or shareholder agreements and other governing documents applicable to each Fund (collectively the "Fund Documents"); (ii) formulates investment objectives; (iii) directs and manages the investment and reinvestment of the Funds' assets; and (iv) provides, or causes to be provided, periodic reports to investors. HCG provides investment advice directly to the Funds and not individually to a Fund's limited partners or shareholders. Investment restrictions for the Funds, if any, are generally established in the applicable Fund Documents. It should be noted that HCG has in the past and may in the future enter into side letters or similar agreements with certain investors. Such agreements may provide for, among other things, reduced fees, redemption and withdrawal rights, notice periods and information rights.

As of December 31, 2017, the Funds advised by HCG managed regulatory assets under management of approximately \$374,127,187 on a discretionary basis.

## ITEM 5 – FEES AND COMPENSATION

### **Management Fee**

HCG generally charges asset-based investment advisory fees to each Fund (“Management Fee”). Management Fees paid by a Fund are indirectly borne by investors in such Fund. Such Management Fees are deducted from Fund assets and generally payable quarterly in arrears. The precise amount of, and the manner and calculation of, the Management Fee for each Fund is established by HCG, as modified by negotiations with investors in the applicable Fund, and is set forth in the applicable Fund Documents received by each investor prior to investment in such Fund.

Consistent with the Fund Documents, generally, each Fund pays a maximum quarterly Management Fee equal to  $1/4^{\text{th}}$  of 2% (or 2% annualized) of the net asset value (“NAV”) of each series of shares of the Fund. Fund investors do not have the ability to choose to be billed directly for fees.

### **Performance Fee**

Additionally, at the end of the Fund’s fiscal year, the Investment Adviser is entitled to a performance fee (“Performance Fee”) of the net capital appreciation attributable to each Fund investor’s capital account in the applicable Fund, subject to a hurdle rate (the “Hurdle Rate”). The Performance Fee is generally equal to 20% of an amount (if positive) equal to (a) the result of (i) the net asset value of such capital account as of the end of the fiscal year (adjusted for capital contributions, withdrawals or distributions made during such fiscal year) (the “Year-End Value”) *minus* (ii) the net asset value of such capital account as of the first day of the fiscal year (the “Beginning Year Value”), *minus* (b) the product of the applicable Hurdle Rate and the Beginning Year Value of such capital account.

The Investment Adviser may, in its sole discretion, waive any portion of the Management Fee and Performance Fee that would otherwise be allocable to any particular Fund investor or class of Fund interests, and may effect such waiver by means of a reimbursement to a Fund investor or investors.

### **Additional Fees and Expenses**

In addition to the Management Fee and Performance Fee, the Funds may pay or reimburse the General Partner, the Investment Adviser and/or their affiliates for all expenses related to the organization and initial offering expenses of the Master Fund and Offshore Fund, including, but not limited to, legal and accounting fees, printing and mailing expenses and government filing fees (including blue sky filing fees). The Funds’ organizational and initial offering expenses will be, for accounting purposes, amortized by the Funds for up to a sixty (60) month period. Amortization of such expenses is a divergence from U.S. generally accepted accounting principles (“GAAP”). In certain circumstances, this divergence may result in a qualification of the Funds’ annual audited financial statements. In such instances, the Funds may elect to (i) avoid the qualification by recognizing the unamortized expenses or (ii) make GAAP conforming changes for financial reporting purposes, but amortize expenses for purposes of calculating the Funds’ net asset value (resulting in a divergence in fiscal year-end net asset values reported in the Funds’ financial statements, and as otherwise applicable under the provisions of the applicable Fund Documents). If the Fund is terminated within sixty (60) months of its commencement, any unamortized expenses will be recognized. If a Fund investor makes a withdrawal prior to the end of the period during which the Fund is amortizing expenses, the Fund may, but is not required to, accelerate a proportionate share of the unamortized expenses based upon the amount being withdrawn and reduce withdrawal proceeds accordingly.

The Funds will also pay or reimburse the General Partner, the Investment Adviser and their affiliates for (i) all expenses incurred in connection with the ongoing offer and sale of Fund interests, including, but not limited to, printing of Fund Documents and exhibits and documentation of performance and the admission of Fund investors, (ii) all operating expenses of the applicable Funds such as tax preparation fees, governmental fees and taxes, administrator fees, costs of communications with Fund investors, and ongoing legal, accounting, asset valuation, auditing, bookkeeping, consulting and other professional fees and expenses, (iii) all Fund trading and investment related costs and expenses (including, without limitation, travel expenses and other expenses of the Investment Adviser related to diligence of investment opportunities for the Funds), (iv) all fees and other expenses incurred in connection with the investigation, prosecution or defense of any claims, assertion of rights or pursuit of remedies, by or against the Funds, including, without limitation, professional and other advisory and consulting expenses, (v) fees and expenses relating to software tools, programs or other technology utilized in managing the Funds (including, without limitation, third-party software licensing, implementation, data management and recovery services and custom development costs), (vi) research and market data (including, without limitation, any computer hardware and connectivity hardware (e.g., telephone and fiber optic lines) incorporated into the cost of obtaining such research and market data), (vii) insurance expenses, including costs related to directors and officers insurance, errors and omissions insurance, premiums for cybersecurity insurance and other liability insurance covering the General Partner, the Investment Adviser and the members, partners, officers, employees and agents of any of them, (viii) costs of printing and mailing reports and notices, (ix) regulatory expenses (including, without limitation, filing fees) and (x) extraordinary expenses, including the following: indemnification expenses; fees and expenses incurred in connection with any tax audit by any U.S. federal, state or local authority, including any related administrative settlement and judicial review; and fees and expenses incurred in connection with the reorganization, dissolution, winding-up or termination of a Fund. The Funds will also bear all of the expenses similar to those described above and incurred by any feeder fund organized by the General Partner to invest in the Master Fund. The Funds also will bear its pro rata share of the organizational costs, operating costs, investment related expenses and any other expenses of each of the Portfolio Funds.

The General Partner and the Investment Adviser will bear their respective overhead expenses, such as salaries and real estate lease expenses.

Fees and expenses paid or incurred by the Funds that are attributable to only one class of investors' interests in the Funds will be specially allocated to that class. Fees and expenses that may be attributable to more than one class or all classes of investor interests will be allocated among such classes in a manner that the General Partner determines to be fair and equitable.

The General Partner and/or the Investment Adviser may sell Fund interests through broker-dealers, placement agents and other persons and pay a marketing fee or commission in connection with such activities, including ongoing payments, at the General Partner's or the Investment Adviser's own expense. In certain cases, the General Partner and/or the Investment Adviser reserve the right to deduct a percentage of the amount invested by an investor in the Fund to pay sales fees or charges, on a fully disclosed basis, to a broker-dealer, placement agent or other person based upon the capital contribution of the investor introduced to the Fund by such broker-dealer, agent or other person. Any such sales fees or charges would be assessed against the referred Fund investor and would reduce the amount actually invested by such investor in the Fund.

**It is critical that Fund investors refer to the relevant confidential Fund Documents for a complete understanding of how HCG is compensated for its advisory services and the fees they will pay. The information contained herein is a summary only and is qualified in its entirety by the relevant Fund Documents.**

## **ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As described in Item 5 above, HCG (or its affiliate, the General Partner) may receive performance-based compensation from the Funds.

This creates a potential conflict of interest in that the Performance Fee may create an incentive for HCG to make more speculative investments than would otherwise be made or make decisions regarding the timing and manner of realization of investments differently than if such Performance Fee was not received. Fund investors are provided with clear disclosure as to how the Performance Fee is charged with respect to a particular Fund and the risks associated with such performance-based compensation prior to making an investment.

As noted in Item 5, HCG may elect to waive or reduce the Management Fee or Performance Fee for any investor, including investors that are affiliates and/or related persons of HCG.



## **ITEM 7 – TYPES OF CLIENTS**

HCG's only advisory clients are the Funds. Each investor in the Funds must meet certain eligibility provisions set forth in the applicable Fund Documents. The minimum commitment for an investor is also outlined in the applicable Fund Documents, including the discretion of the General Partner to accept less than the minimum investment threshold. Each investor in the Master Fund and each investor in the Offshore Fund who is a U.S. Person (as defined in Regulation S under the U.S. Securities Act of 1933, as amended) is required to meet certain suitability qualifications, such as being (1) an "accredited investor" as defined in Regulation D under the Securities Act and (2) a "qualified purchaser" as defined in Section 2(a)(51) of the Investment Company Act.

## **ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

**The descriptions set forth in this Brochure of specific advisory services that HCG offers to clients, and investment strategies pursued and investments made by HCG on behalf of its clients, should not be understood to limit in any way HCG 's investment activities. HCG may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that HCG considers appropriate, subject to each client's investment objectives and guidelines. The investment strategies HCG 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.**

### **INVESTMENT STRATEGIES**

The Funds' investment objective is to generate consistent absolute returns over the long-term risk premium, with mitigated downside risk by investing substantially all of its assets in Portfolio Funds. Each Portfolio Fund invests (either directly or indirectly through investments in a trust or similar vehicle) primarily in Digital Loans originated in the United States or outside the United States through Digital Lending Platforms sponsored by and serviced by Digital Lending Platform Sponsors and Digital Loan Securities that are issued by Digital Loan Security Issuers and are collateralized by, or reference or otherwise track the performance of, one or more portfolios of Digital Loans.

Digital Loans are generally private, small-balance, short-term loans originated through Digital Lending Platforms. Digital Loans were either inaccessible, not historically available to capital market investors, or reserved for specialist finance institutions, niche investors, and banks. The Funds offer investors a single point of access to participate in what the Investment Adviser believes to be one of the most attractive risk-adjusted and time-adjusted return streams provided by a diversified pool of Digital Loans and Digital Loan Securities, achieved by allocating Fund assets across one or more Portfolio Funds. Each Portfolio Fund will consist of a diversified portfolio of Digital Loans or Digital Loan Securities.

The Funds expect that most Digital Loans held by a Portfolio Fund (either directly or through Digital Loan Securities) will have maturities ranging between 30 days and 84 months, will pay cash interest monthly and may in some cases (such as sinking balance loans) amortize principal monthly. Combined with penalty-free loan prepayments that are permitted by the terms of most Digital Loans, Digital Loans typically generate monthly cash flow that the Funds will generally reinvest into new Digital Loans to achieve high cash utilization and minimize drag on returns. Each Portfolio Fund may experience some capital loss due to loan charge offs. When appropriate, each Portfolio Fund will establish a loan loss reserve to absorb loan charge-offs when they occur. If and when leverage is added to a Portfolio Fund, interest expense on that leverage will be absorbed by that Portfolio Fund.

**Paradigm Shift:** Following the financial crisis of 2008, the combination of increased regulatory burdens, escalating bank capital requirements, and compressing interest rates for bank products caused many banks to reduce their lending activities. They refrained from product innovation in loans historically dominated by a small group of lenders (e.g., personal loans) or stopped providing credit altogether to borrowers who relied exclusively on banks for credit (e.g., small businesses, single family rehabilitation companies). At the same time, social online behavior, financial technology, and the Internet led to the birth of Digital Lending Platforms, including “online peer-to-peer” or “marketplace lending” platforms, that have started to disintermediate traditional banking and lending activity. This confluence of regulation, technology and online behavior paved the way for the emergence of a sustained paradigm shift in the traditional funding channel. It is this paradigm shift that enabled the Funds' opportunity in the new reality of digital finance.

Utilizing traditional banking's underwriting practices and marrying them to the principles of transparency, data and speed that dominate today's "Internet 2.0" world, loan marketplaces such as those sponsored by LendingClub (ticker: LC), LendingHome and Square Inc. (ticker: SQ), emerged to fill the gap vacated by traditional lending institutions. These Digital Lending Platform Sponsors created an alternative to traditional lending institutions for borrowers, and in the process enabled a virtuous circle whereby borrowers have faster access to capital at a more attractive rate and savers earn more attractive risk-adjusted returns than otherwise available. There is no turning back from this paradigm shift because the value proposition and net economic benefits makes sense to all constituents, namely borrowers, lenders, savers, and channel operators (i.e., the marketplaces).

**The HCG Approach:** The Investment Adviser's investment approach combines traditional due diligence and decision-making processes with technology and engineering to create a powerful tool suited for 21st century investment management. Each leg of the approach works symbiotically with the other in an iterative manner to inform the investment team both, prior to making initial investments and after investments have been made.

### **Portfolio Funds Generally**

A Portfolio Fund may be organized in or outside of the United States as a limited liability company, limited Fund, corporation, securitization vehicle or any other entity selected by the General Partner (or one of its affiliates) in its sole discretion. The Funds' investment in a Portfolio Fund may consist of equity interests in such Portfolio Fund, as well as debt instruments of varying seniority and subordination issued by such Portfolio Fund.

Generally, the investment manager, investment adviser, manager, managing member, directors or general partner of each Portfolio Fund will be, or a similar function will be performed by, the General Partner, the Investment Adviser or their affiliates.

Because the Portfolio Funds are generally organized by the General Partner (or its affiliates) for the purposes of facilitating the investment management of assets of clients of the Investment Adviser or its affiliates, interests in such Portfolio Funds may be held by one or more of clients of the Investment Adviser or its affiliates, including the Fund. As a general partner, managing member or manager (or similar capacity) of each Portfolio Fund, the Investment Adviser or one of its affiliates exercises control over the issuance and transfer or other disposition of the interests of such Portfolio Funds.

A Portfolio Fund may purchase Digital Loans, Digital Loan Securities, Special Situation Investments (as defined below) and/or other assets from the Fund's other Portfolio Funds or from the Fund. A Portfolio Fund may fund such purchases by borrowing from loan facilities and/or by issuing securities to third-party investors or the Fund. By acquiring a limited partnership interest, each limited partner will be deemed to have consented to any purchase by such Portfolio Fund of assets from the Funds' other Portfolio Funds or from the Funds to the extent such purchase constitutes a cross-agency transaction.

### **RISK OF LOSS**

**Prospective investors should be aware that an investment in the Funds involves a high degree of risk. Investors could lose the entire amount of their investments or recover only a small portion of their investments if the Funds suffer substantial losses. The list of risk factors below does not purport to be a complete enumeration or explanation of the risks involved in an investment in the Funds. Different or new risks not addressed below may arise in the future and, therefore, the following list is not intended to be exhaustive. Potential investors in the Funds should carefully review the Fund**

**Documents in their entirety and consult with their own financial, tax and/or other advisers before deciding whether to invest in the Funds.**

## **Investment Risks**

***Dependence Upon the Investment Adviser and the Principals.*** The Funds' success will depend on the investment advice and recommendations of the Investment Adviser and on the skill and acumen of the Principals. Further, if the Principals should cease to participate in the Funds' business, the Funds' ability to select attractive investments and manage its portfolio could be severely impaired. Investors have no right or power to take part in the management of the Funds and will have no opportunity to select or evaluate any of the Funds' investments or strategies. As limited partners, holders of limited partnership interests will not have any voting rights regarding the management of the Fund or otherwise, other than in relation to proposed amendments to the limited partnership agreement that would have a material adverse effect on the rights of such limited partners. Accordingly, no person should purchase a limited partnership interest unless such person is willing to entrust all aspects of the management of the Fund and its investments to the discretion of the General Partner and the Investment Adviser.

***Unspecified Investments.*** The Investment Adviser has complete discretion to select investments for the Funds as investment opportunities arise, including, without limitation, investments in Portfolio Funds investing in Digital Loans, Digital Loan Securities or Special Situation Investments. The Investment Adviser has complete discretion to select the Portfolio Funds and the Investment Adviser or other entities controlled by the Principals will have complete discretion to organize the Portfolio Funds and select the assets in which such Portfolio Funds invest. A limited partner must rely upon the ability of the Investment Adviser to identify and implement investments consistent with the Fund's investment objective. No limited partner will have any right under a limited partnership agreement to require the Investment Adviser to invest in a particular Portfolio Fund or require any Portfolio Fund to make investments in any particular asset type.

Although the Funds expect to invest in Portfolio Funds that invest primarily in Digital Loans and Digital Loan Securities, the Investment Adviser may, in its sole discretion, invest a portion of the assets of the Funds in investments, which may consist of, but are not limited to, litigation finance receivables, trade finance receivables and other consumer or business loans, advances or receivables that are not originated through Digital Lending Platforms and equity or debt securities issued by Digital Lending Platform Sponsors and other issuers ("Special Situations Investments"). Although many of the risk factors related to Digital Loans and Digital Loan Securities that are described in the Fund Documents may also apply to the Funds' investments in Special Situation Investments, the Funds may be exposed to different or new risks not addressed in the Fund Documents in respect of Special Situation Investments because of the unspecified characteristics of Special Situation Investments. Therefore, the disclosure of the risks related to Digital Loans and Digital Loan Securities in the Fund Documents may not adequately address the potential risks related to Special Situation Investments in which the Funds may invest from time to time.

***Concentration Risk.*** A Portfolio Fund may invest virtually all of its assets in Digital Loans or Digital Loan Securities related to a single Digital Lending Platform Sponsor. As a result, a Portfolio Fund's portfolio will be concentrated almost exclusively in assets that depend on a single Digital Lending Platform Sponsor even though the Portfolio Fund's portfolio may include a diverse pool of assets originated by the Digital Lending Platform Sponsor. This concentration of risk will substantially increase the risk of material losses, even total losses, of investments held by the Portfolio Fund and the Fund. This concentrated exposure to a single Digital Lending Platform Sponsor could expose any such Portfolio Fund to losses disproportionate to market movements in general if the Digital Lending Platform Sponsor become insolvent or run into significant financial difficulties.

***Illiquidity Risk of Investments.*** Digital Loans, Digital Loan Securities and Special Situation Investments are not expected to have any active trading markets. Upon the purchase of such assets, a Portfolio Fund (and therefore, the Funds) will have a very limited ability to liquidate assets to meet withdrawal requests of limited partners, or to reposition the portfolio in response to a change in economic events. In the event a forced liquidation were to take place, the Funds may be subject to sizable capital losses if a Portfolio Fund were forced to create a market into which it can sell these assets.

***Risks of Digital Loan Securities.*** A Portfolio Fund may invest primarily in Digital Loan Securities. Each Digital Loan Security is a security evidencing an interest in the Digital Loan Security Issuer backed by Digital Loans linked to such Digital Loan Security. A Digital Loan Security may not be secured by the Digital Loans that are linked to such Digital Loan Security. Typically, none of the Digital Loan Security Issuers, trustees of the Digital Loan Security Issuer, the Portfolio Funds, the Funds, the General Partner, the Investment Adviser and the limited partners will have any right to service the Digital Loans linked to the Digital Loan Securities held by Portfolio Funds or any direct recourse to the obligors under such Digital Loans. Only Digital Lending Platform Sponsor and any successor servicer of Digital Loans under the Digital Lending Platform Sponsor's platform will have the right to enforce claims against the borrowers of Digital Loans.

***Reliance on Digital Lending Platform Sponsor.*** The online lending industry is a relatively new industry. Digital Lending Platform Sponsors are typically new companies with limited operating histories. A Portfolio Fund, as an investor in Digital Loans or Digital Loan Securities, will rely exclusively on the Internet-based platforms established and maintained by the related Digital Lending Platform Sponsor to screen loan applicants, set interest rates on the loans, and service and enforce collection of the loans. Given the short history of the online lending industry and the limited historical data about the performance of Digital Loans, there is substantial uncertainty about the robustness and reliability of any Digital Lending Platform Sponsor's Internet platform, including its largely automated credit-decision models, underwriting process, loan pricing models and collection infrastructure. In addition, the loan origination process effected through a Digital Lending Platform Sponsor's Internet platform may not be transparent and Portfolio Funds will not be able to verify the robustness and reliability of that process.

Because investors in Digital Loans and Digital Loan Securities must rely on the related Digital Lending Platform Sponsor to originate and service the related Digital Loans, the Funds and the Portfolio Funds rely heavily on Digital Lending Platform Sponsors. Consequently, although a Digital Lending Platform Sponsor is typically not a creditor or guarantor in respect of the related Digital Loans or Digital Loan Securities, a bankruptcy of a Digital Lending Platform Sponsor or financial difficulties of a Digital Lending Platform Sponsor would have several materially adverse effects on the value of the Funds' investments in such Digital Loans or Digital Loan Securities. If a Digital Lending Platform Sponsor became insolvent or suffered financial difficulties, the servicing of the related Digital Loans or Digital Loan Securities in which the a Fund is invested through its Portfolio Funds may be disrupted for an extended period of time, creating cash flow issues for the Funds as a whole, and could lead to significant capital losses to the extent leverage is being employed by the related Portfolio Fund. In addition, if a Digital Lending Platform Sponsor became insolvent, the bankruptcy court might consolidate the assets of the Digital Lending Platform Sponsor and the Digital Loan Security Issuers sponsored by the Digital Lending Platform Sponsor under a doctrine of substantive consolidation or invalidate the Digital Lending Platform Sponsor's transfer of Digital Loans to the Digital Loan Security Issuers that are related to the Digital Loan Securities held by a Portfolio Fund. In either case, the Portfolio Fund will have only a general unsecured creditor's claim against the bankruptcy estate of such Digital Lending Platform Sponsor. Therefore, upon the occurrence of a bankruptcy or financial difficulties of a Digital Lending Platform Sponsor, the Portfolio Fund may recover only a small fraction of the aggregate principal balance of its Digital Loan Securities from its claims against the company or recover nothing.

Any disruption in a Digital Lending Platform Sponsor's operations may result in a disruption of cash flows being generated by the related Portfolio Fund's portfolio, and hence could create cash flow issues for the Funds that could result in losses for limited partners.

The Funds are assuming a certain level of generation of Digital Loans or Digital Loan Securities by the Digital Lending Platform Sponsors to enable the Portfolio Funds to successfully invest their capital in such assets. In the event a Digital Lending Platform Sponsor experiences meaningful decreases in Digital Loan originations on its platform, the related Portfolio Fund may find it is unable to invest all of the capital under management in a reasonable timeframe, or may be unable to fully use its asset selection processes due to a lack of loans available on the platform. In either event, the Portfolio Fund's returns may be hampered by this lack of platform assets, and may be forced to return capital to the Fund due to an inability to invest on the Digital Lending Platform Sponsor platform. The failure of Digital Lending Platform Sponsor as a company would eliminate the related Portfolio Fund's ability to reinvest in substantially similar assets in the future.

***Accuracy of Digital Lending Platform Sponsor Information.*** Typically, the Investment Adviser's advice and recommendations about the investments for the Funds will be formulated on the basis of information and data provided by the borrowers on the Digital Lending Platform Sponsor's platform and obtained through the Digital Lending Platform Sponsor itself. The Investment Adviser has a very limited ability to independently verify the information being provided by Digital Lending Platform Sponsor and is not in a position to confirm the completeness, genuineness or accuracy of such information and data. The results from investments made by the Funds may be impacted by errors, omissions or fraud by a Digital Lending Platform Sponsor that, in the presence of correct, complete and truthful information, may have resulted in the Funds making a different investment decision, and for which the Funds and the related Portfolio Fund has limited recourse against the Digital Lending Platform Sponsor.

***Fraud by Borrowers of Digital Loans.*** While a Digital Lending Platform Sponsor typically makes efforts to ensure that the borrowers under Digital Loans are honest and truthful in their submission of information, it is possible that the borrowers under Digital Loans may successfully fabricate data and otherwise defraud the Digital Lending Platform Sponsor in connection with their loan applications. While the Digital Lending Platform Sponsor may have some recourse against the borrowers in this event and the Portfolio Fund may have some recourse against the Digital Lending Platform Sponsor in this case, the Portfolio Fund may nonetheless suffer a partial or complete loss in respect of the portion of the principal of any Digital Loan Security that corresponds to such Digital Loans.

***Risks Related to Non-US Investments.*** The Funds may invest in Digital Loans, Digital Loan Securities and Special Situation Investments that are originated or issued outside the United States. The Funds may invest in Digital Loans made to consumers and businesses outside the United States and serviced by servicers operating outside the United States. Investing in such non-U.S. assets involves certain considerations not usually associated with investing in U.S. assets or U.S. markets, including: political and economic considerations, such as greater risks of expropriation and nationalization of private property, confiscatory taxation, the potential difficulty of repatriating funds, general social, political and economic instability and adverse diplomatic developments; the possibility of imposition of withholding or other taxes on dividends, interest, capital gain, gross sale or disposition proceeds or other income; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the Funds' investment opportunities. In addition, accounting and financial reporting standards that prevail in such countries generally are not equivalent to U.S. standards and, consequently, less information is available to investors in companies located in such countries than is available to investors in companies located in the United States. There is also less regulation, generally, of the financial markets in such countries than there is in the United States.

As a result, the Funds may be unable to structure its transactions to achieve the intended results or to mitigate all risks associated with such markets. It may also be difficult to enforce the Funds' rights in respect of its investments in such markets.

***Limitations on Risk Management.*** Although the Investment Adviser attempts to identify, monitor and manage significant risks, these efforts do not take all risks into account and there can be no assurance that these efforts will be effective. Many risk management techniques are based on observed historical market behavior, but future market behavior may be entirely different. Any inadequacy or failure in the Investment Adviser's risk management efforts could result in material losses for the Funds. The ability of the Investment Adviser to manage the risks related to the Funds' investments through hedging activity or otherwise will also be limited by its lack of control over the origination and servicing activities of the Digital Lending Platform Sponsors. Therefore, the Funds, the Investment Adviser and each Portfolio Fund must rely on the experience and competency of each Digital Lending Platform Sponsor to conduct origination and servicing activities properly. Moreover, even where the Investment Adviser or the Portfolio Funds undertake such hedging activity, there is the possibility that such hedging activity may not effectively mitigate the risks, may not result in achieving positive risk-adjusted returns and may otherwise increase the loss of Fund assets.

***Lack of Insurance.*** The assets of the Funds are not insured by any government or private insurer except to the extent portions may be deposited in bank accounts insured by the U. S. Federal Deposit Insurance Corporation or with brokers insured by the U. S. Securities Investor Protection Corporation and such deposits and securities are subject to such insurance coverage (which, in any event, is limited in amount). Therefore, in the event of the insolvency of a depository or custodian, the Funds may be unable to recover all of its funds or the value of its securities so deposited.

***Valuation of the Investments.*** The value of the Funds' investments in Portfolio Funds will be determined primarily by using the values provided by the Portfolio Funds. Each Portfolio Fund will value the Digital Loan Securities and other assets in accordance with the Investment Adviser's valuation policies with respect to such assets. Both interests in Portfolio Funds and Digital Loan Securities held by Portfolio Funds are typically illiquid securities for which market prices are not available. The Funds' ability to properly value the Funds' investment in a Portfolio Fund may be limited by the accuracy and timeliness of the Funds' receipt of valuation information related to such Portfolio Fund's Digital Loan Securities reported by Digital Lending Platform Sponsors, servicers, trustees and other outside sources responsible for providing valuation information regarding such Digital Loan Securities. Illiquid investments and other assets and liabilities for which no such market prices are available may be carried on the books of a Portfolio Fund at fair value (which may be cost). There is no guarantee that fair value will represent the value that will be realized by the Funds or a Portfolio Fund on the eventual disposition of the investment or that would, in fact, be realized upon an immediate disposition of the investment.

***Use of Estimated and Unaudited Information.*** The Funds will use estimated and unaudited data and information to calculate, account for and report the Funds' assets, liabilities and investment performance for any period. Accordingly, the net asset value of the Funds and a limited fund interest (and any other data or information derived therefrom) will be estimated and unaudited for any date other than December 31st of each year. Such estimated and unaudited data and information is subject to adjustment based on any errors or changes that are discovered by a Fund, the General Partner, the administrator, the Investment Adviser or their service providers, and any such adjustments may be effected in the accounting period in which it was discovered or following its discovery rather than the accounting period to which the adjustment relates. Such adjustments could be material and, to the extent related to a past accounting period, could cause a significant change in the Funds' previously reported assets, liabilities or net asset values. Because it may be impractical for the Funds to restate the Fund assets, liabilities, net asset values or other information reported for past accounting periods, the Funds may adjust current accounting period values in connection

with any such changes, regardless of whether all or any current holders of limited fund interests held such interests during the accounting period to which the adjustment relates. Furthermore, none of the Funds, the General Partner, the Investment Adviser, the administrator or other service providers would be obligated to return to the Funds any portion of any asset based fees or allocations previously paid or made by the Funds to such party and later discovered to be in excess of the amount that the Fund would have otherwise owed based on the actual net or gross asset values of the Funds.

***Leverage.*** Although the Funds may borrow funds on a secured or unsecured basis, at such times and in such amounts as the General Partner may determine in its sole discretion, the Funds do not expect to do so. Each Portfolio Fund has acquired or will actively pursue leverage to enhance returns on its investments in Digital Loan Securities.

A Portfolio Fund may borrow funds on a secured or unsecured basis, in order to: (i) fund capital withdrawals to investors in such Portfolio Fund; (ii) pay operating expenses on an interim basis; (iii) meet other working capital needs; and (iv) leverage its investments.

There is no assurance that any Portfolio Fund will be able to obtain such borrowed funds on reasonable terms, if at all. The lender providing the borrowed funds to a Portfolio Fund may require that the borrowed amounts be repaid, pursuant to an event of default or otherwise, at a time when the Portfolio Fund has little or no liquidity and such lender will thereafter have certain rights with respect to the collateral, including the right to possess the collateral or liquidate the collateral. A lender under a leverage facility will likely require the Portfolio Fund to pledge all or a substantial portion of its assets to secure the Portfolio Fund's obligations to repay the loans under the leverage facilities. Also, in general, lenders to a Portfolio Fund and other creditors of a Portfolio Fund will have claims on such Portfolio Fund's assets that are senior to any obligations that the Portfolio Fund may have to the Funds. Consequently, if the Portfolio Fund defaults under any of its covenants under any leverage facility, the related lender may foreclose on the pledged assets in a manner that can cause a severe or total loss of the investments made by the investors in the Portfolio Fund, including the Funds.

While the use of leverage by a Portfolio Fund increases the opportunity to achieve higher returns on the amounts invested, it also increases the risk of loss to such Portfolio Fund. The level of interest rates generally, and the rates at which such funds may be borrowed in particular, could affect the operating results of such Portfolio Fund. If the interest expense on this leverage were to exceed the net return on the investments made with borrowed funds, the Portfolio Fund's use of leverage would result in a lower rate of return than if the Portfolio Fund were not leveraged. If the amount of leverage which a Portfolio Fund may have outstanding at any one time is large in relation to its capital, any spike in losses in such Portfolio Funds' portfolio will have disproportionately large effects in relation to such Portfolio Fund's capital and the possibilities for profit, and the risk of loss will therefore be increased. Any investment gains made with the additional leverage will generally cause the net asset value of such Portfolio Fund to rise more rapidly than would otherwise be the case. Conversely, if the investment performance of the leveraged capital fails to cover its cost to such Portfolio Fund, the net asset value of such Portfolio Fund will generally decline faster than would otherwise be the case.

***Consequences of Withdrawal from Portfolio Funds.*** The Funds could be required to withdraw from Portfolio Funds at disadvantageous times in order to fund amounts due to any withdrawing limiting partners of the Funds. Additionally, to the extent that the Funds are co-invested in a Portfolio Fund along with other investment vehicles managed by the General Partner or its affiliates, any withdrawal by such other investment vehicles from the Portfolio Fund may adversely affect the Funds' investment in such Portfolio Fund. The withdrawal by the Funds from one or more Portfolio Funds in order to satisfy a withdrawal request or otherwise may result in realized capital gains or losses that will be allocated to the capital accounts relating to the remaining outstanding limited partnership interests. In addition, simultaneous



withdrawals by the Funds and any other investment vehicles managed by the General Partner or its affiliates from a Portfolio Fund may adversely affect the liquidity of such Portfolio Fund.

In the event that there are substantial withdrawals by limited partners within a limited period of time, the Investment Adviser may find it difficult to adjust its asset allocation and investment strategies to the suddenly reduced amount of assets under management. Under such circumstances, in order to provide funds to pay withdrawal proceeds, the Investment Adviser might be required to liquidate positions at an inappropriate time or on unfavorable terms. The Investment Adviser may be required to commence liquidation well in advance of the applicable Withdrawal Date, thereby having excess cash in the Funds to satisfy the withdrawal request on a timely basis. On an ongoing basis, irrespective of the period over which substantial withdrawals occur, it may be more difficult for the Funds to generate favorable returns operating on a smaller asset base and, as a result of liquidating assets to fund withdrawals, the Funds may be left with a much less liquid portfolio.

Portfolio Funds may have issued, and may in the future issue, Funds or membership interests to investors other than the Funds (including to other investment funds or other entities or persons that are either managed or advised by the General Partner or one of its affiliates). In the event that there are substantial withdrawals by any of the members of a Portfolio Fund other than the Funds, the Portfolio Fund may find it difficult to adjust its asset allocation and investment strategies to the suddenly reduced amount of assets under management or might be required to liquidate positions at an inappropriate time or on unfavorable terms to fund such withdrawals, in each case as discussed above, thereby causing adverse consequences to the Portfolio Fund's remaining members, including the Funds.

***Potential of Insufficient Investment Opportunities.*** Depending on the market conditions, the Funds may not be able to identify and obtain a sufficient number of investment opportunities to fully invest the investment proceeds received by the Funds at any time. Also, pending such investment, to the extent that any funds are invested in cash equivalents, at the sole discretion of the Investment Adviser, such cash equivalents may not earn a return sufficient to cover the Funds' operating expenses and, therefore, the result would be a loss of capital invested by limited partners in the Funds.

***Allocation of Participation.*** If the General Partner determines for tax, regulatory or any other reason that a limited partner or class of partners should not participate fully or in any part of the profit or loss attributable to any asset or transaction, or should have no interest in a particular asset or transaction, the interest of that asset or transaction may be set forth in a separate memorandum account in which such limited partners or class of partners will not participate, and the profit or loss attributable thereto for each such memorandum account will be calculated separately and allocated by the General Partner accordingly.

### **Legal Risks Affecting Investments in Digital Loans**

The current regulatory landscape applicable to marketplace lending is in dramatic flux. Following the inauguration of President Donald Trump in January of 2017 and the subsequent on-going replacement of senior policy makers at federal financial regulators from the prior administration, a coherent comprehensive federal policy on marketplace lending and "fintech" has yet to be developed. Nonetheless, based on recent regulatory pronouncements and actions it appears that significant policy changes are likely to continue at the federal level. In addition, developments at the state level continue to be more directed and on-going.

## ***Federal Regulatory Risks***

### **Consumer Financial Protection Bureau**

The Consumer Financial Protection Act (“CFPA”) was enacted as a part of the Dodd-Frank Wall Street Reform and Consumer Financial Protection Act. The CFPA makes it unlawful for any “covered person” (i.e., a person engaged in offering or providing consumer financial products or services) to engage in any unfair, deceptive, or abusive acts or practices (“UDAAP”). Consumer finance entities not otherwise subject to federal regulation and oversight, are subject to the primary authority of the Consumer Financial Protection Bureau (“CFPB”) over UDAAPs. The CFPB also has authority to enforce most other federal consumer protection laws. Prior to the November 24, 2017 resignation of Richard Cordray as CFPB Director, the CFPB had brought a number of enforcement actions against unlicensed online marketplace lenders alleging attempts to circumvent state usury laws. In these cases, the CFPB claimed that it was a UDAAP for unlicensed online marketplace lenders to avoid state usury laws by attempting to apply foreign or tribal law. However, CFPB Acting Director Mick Mulvaney put a freeze or ultimately withdrew some of these cases. In the interim, the CFPB has been re-evaluating each of the remaining outstanding cases.

Although the CFPB’s long-term policies are on hold until a new director is nominated by the President and confirmed by the Senate, Acting Director Mulvaney has made public pronouncements that the CFPB will no longer pursue a process of regulation by enforcement actions and instead focus on its rulemaking authority.

Nonetheless, Acting Director Mulvaney has stated that the CFPB will seek to work with states to enforce consumer financial protection laws. Section 1042 of the CFPA grants states the authority to enforce the CFPA and other federal consumer financial protections laws. Therefore, although the CFPB may be reevaluating its enforcement policies and reducing its use of enforcement actions, states may step into the regulatory void and bring their own enforcement actions against Digital Lending Platform Sponsors.

### **United States Treasury**

On May 10, 2016, the U.S. Treasury Department issued a white paper regarding its review of the online lending industry, which clarified that the growth of the industry may soon be accompanied by increases in regulatory oversight over the industry. Any such increased regulatory oversight over the online lending industry may make it more difficult and more expensive for Digital Lending Platform Sponsors to operate, which may increase the investment costs and reduce investment opportunities for the Funds.

### **Federal Deposit Insurance Corp.**

On July 29, 2016, the FDIC issued FIL-50-2016, which seeks comment on proposed Guidance for Third-Party Lending for FDIC-supervised institutions when lending through a business relationship with a third-party. The guidance would apply to all FDIC-supervised banks and thrift institutions that engage in third-party lending, regardless of asset size. The proposed guidance defines third-party lending as an arrangement that relies on a third-party to perform a significant aspect of the lending process. This includes institutions originating loans to third parties, institutions originating loans through third parties or jointly with third parties, and institutions originating loans using platforms developed by third parties. These include marketplace lending companies with bank funds. Such guidance and any increased regulatory oversight by the FDIC over such institutions may make it more difficult and more expensive for Digital Lending Platform Sponsors to operate by reducing their access to capital or increasing their costs for procuring capital, which may increase the investment costs and reduce investment opportunities for the Funds.

## Office of Controller of Currency

On December 2, 2016, the Office of the Comptroller of the Currency (“OCC”) announced plans to accept applications for a limited purpose national bank charter for fintech companies.

On March 15, 2017, the OCC issued additional guidance, including a draft supplement to the Comptroller’s Licensing Manual for fintech charters. See <https://www.occ.treas.gov/news-issuances/news-releases/2017/nr-occ-2017-31.html>. No fintech charters have been issued by the OCC. If approved for a bank charter, a fintech company would not be subject to state licensing, usury laws and supervision requirements, but would become subject to the federal banking laws and regulations, including the anti-money laundering controls, fair lending, and consumer protections that apply to national banks subject to the OCC’s supervision.

On April 26, 2017 the multi-state Conference of State Bank Supervisors (“CSBS”) sued the OCC in Federal District Court in the District of Columbia to block the agency from going forward with its proposal to grant special purpose national bank charters to fintech companies. A similar action was filed on May 12, 2017 by the Superintendent of the New York Department of Financial Services (“NYDFS”). The CSBS case is pending while the NYDFS case was dismissed by the Court without prejudice as being premature.

On June 7, 2017 the OCC issued Bulletin 2017-21 supplementing its 2013-29 Third-Party Relationships: Risk Management Guidance consisting of 14 frequently asked questions, many of which were specifically directed at fintech companies and bank arrangements with marketplace lenders.

On November 27, 2017, Joseph Otting became the Comptroller of the Currency. In a press conference shortly after being sworn in, Comptroller Otting indicated his support for a fintech charter although the requirements for chartered fintechs needed to be determined. It is unclear as to the impact (if any) of the pending CSBS case or further litigation by the NYDFS or others. Moreover, it is unclear as what impact (if any) a limited purpose national bank charter would have on Digital Lending Platform Sponsors that elect to procure such charter. If regulatory or marketplace pressures force Digital Lending Platform Sponsors elect to procure such charter, the increased federal regulation applicable to recipients of such charter may make it more difficult and more expensive for Digital Lending Platform Sponsors to operate, which may increase the investment costs and reduce investment opportunities for the Funds.

## ***State Law Compliance and Enforcement Risks***

### Expansion of State Licensing Requirements for Marketplace Lenders

Marketplace lenders are subject to licensing laws of the states in which the borrowers are located. Several states have announced changes to their licensing requirements to provide additional or expanded oversight over marketplace lenders. New York and California are two states that have asked about broadening their state licensing requirement to sweep in “fintech” companies. Any such state licensing requirement and increased regulatory oversight over the online lending industry may make it more difficult and more expensive for Digital Lending Platform Sponsors to operate, which may increase the investment costs and reduce investment opportunities for the Funds.

### The New York Department of Financial Service (“NYDFS”)

The NYDFS has taken several steps in recent years to expand and solidify its authority over technology-based financial services companies providing products and services to New York residents. New York Governor Cuomo’s 2017-2018 budget included a request for additional funding to expand the companies subject to state licensing requirements. If passed, the changes would have affected fintech companies in the

platform lending and loan marketplace spaces, other types of lead generators and loan brokers, and secondary market debt purchasers. The state legislature rejected the proposal to expand NYDFS's authority over small loan lenders. As noted above, the NYDFS filed a lawsuit against the OCC in opposition to fintech charters. It is unknown if the NYDFS will file another lawsuit when the OCC finalizes its fintech charter rules.

NYDFS is investigating Lending Club and other online marketplace lenders. Recently, the NYDFS subpoenaed Lending Club, asking for information about loans it issued to New Yorkers, including information about interest rates that Lending Club charges, underwriting standards, and details about how the company verifies borrower information. NYDFS later expanded its investigation to 28 companies and requested information about their online lending activities. Such investigations and enforcement actions that may follow such investigations may make it more difficult and more expensive for Digital Lending Platform Sponsors to operate in New York, which may increase the investment costs and reduce investment opportunities for the Funds.

In March of 2018, the NYDFS sent a letter to online lending companies that it understood may be doing business in New York and requested that the recipients complete the NYDFS's New York Marketplace Lending Survey. This survey is consistent with New York Assembly Bill A08938 that was passed by the New York Legislature. This Bill amended Senate Bill S.6593A that was signed by New York Governor Cuomo on December 29, 2017 which had created a seven member task force to study online lending and issue a report by April 15, 2018. Instead, under the amended process, the task force was eliminated and the NYDFS was directed "to study and issue a public report with recommendations, concerning the practices, economic impact, and operations of online lending in New York state . . . in consultation with stakeholders, including online lenders, consumers and small businesses." This report must be issued on or before July 1, 2018. This report is possibly the precursor of legislative action by New York imposing significant regulatory restrictions on various types of online lending. Such state requirements and increased regulatory oversight over the online lending industry may make it more difficult and more expensive for Digital Lending Platform Sponsors to operate in New York, which may increase the investment costs and reduce investment opportunities for the Fund.

#### California's Department of Business Oversight

The California Finance Lenders Law imposes licensing requirements on entities seeking to make and broker loans—whether consumer or commercial loans—in the State of California, subject to certain exceptions. Non-exempt entities may not engage in lending activities without obtaining a finance lenders license. Licensed finance lenders are subject to state consumer protection laws. Non-compliance can subject the lender to penalties and civil liability. In a class action brought by a private litigant (*Kempsey v. CashCall, Inc.*), a federal magistrate judge in California recently ordered a lender to pay \$500,000 in statutory damages under the state's Electronic Funds Transfer Act ("EFTA") for conditioning online loans on borrowers' agreements to repay such loans through automatic electronic funds transfers. Such state licensing requirement and increased regulatory oversight over the online lending industry may make it more difficult and more expensive for Digital Lending Platform Sponsors to operate in California, which may increase the investment costs and reduce investment opportunities for the Funds.

#### ***Adverse Court Decisions***

Marketplace lenders are subject to litigation risk, particularly arising from statutes that provide consumers a private right of action. To date, several class action suits have been brought against marketing place lenders. One such suit is *Bethune vs Lending Club Corporation*, which claims that a New York plaintiff received a loan from Lending Club that carried an interest rate of 29.97%. This exceeds the New York usury limits. The complaint alleged that Lending Club sought to "create the illusion that a bank (without

usury rate limitations) was lending the funds to the borrowers, to attempt to legitimize the otherwise usurious loans” and that Web Bank (its partner bank) was only “involved as a ‘pass through’ sham party.”

Buying or selling loans in the secondary market risk violating state usury laws if the purchased or sold loans do not comply with state usury laws. These risks may also apply to marketplace lenders who purchase loans on a flow basis from a bank partner. *Madden v. Midland Funding, LLC*, 786 F.3d 246 (2d Cir. 2015), illustrates these risks. The plaintiff in *Madden* filed a putative class action complaint alleging that the defendant debt buyer, which had purchased the plaintiffs charged-off credit card debt from a national bank, and the buyer's affiliated servicer, violated the federal Fair Debt Collection Practices Act by falsely representing in a collection letter interest they may legally collect. The plaintiff claimed that the interest charged by the defendants after the sale of her account was usurious under New York law. On June 27, 2016, the Supreme Court denied certiorari in *Madden* and therefore, the Second Circuit's decision, which held that the purchaser of a loan from a national bank was not entitled to federal preemption of New York's usury laws, will remain in effect. The case was remanded back to the U.S. District Court for the Southern District of New York which granted class certification on February 27, 2017.

Other cases attacking the scope of federal bank preemption for marketplace lending have been brought by state regulators and consumer advocates. Although *Madden* related to national banks, two U.S. District Court judges in Colorado recently came to similar non-preemption conclusions as the Second Circuit in “true lender” cases brought by the Colorado Uniform Consumer Credit Code Administrator regarding WebBank, a Utah chartered FDIC insured bank, in *Meade v. Avant of Colorado, LLC* on March 1, 2018 and Cross River Bank, a New Jersey chartered FDIC insured bank, in *Meade v. Marlette Funding, LLC* on March 21, 2018. As a result of *Madden* and other cases, Congressional action is pending to overrule the *Madden* decision. On February 14, 2018, the House of Representatives passed the Protecting Consumers' Access to Credit Act of 2017, H.R. 3299, amending the National Bank Act, Home Owners' Loan Act, Federal Credit Union Act and the Federal Insurance Act by providing the continuing validity of the lawful initial interest rate of a loan “regardless of whether the loan is subsequently sold, assigned, or otherwise transferred to a third party, and may be enforced by such third party notwithstanding any State law to the contrary.” As of the date of this Memorandum, this bill is pending in the Senate.

Court cases (such as *Bethune*, *Madden*, *Avant* and *Marlette*) that are adverse to marketplace lending industry may have the effect of reducing the interest that can be charged on Digital Loans to borrowers in certain states or even invalidating certain Digital Loans altogether, including Digital Loans that back Digital Loan Securities in which the Funds invests through the Portfolio Funds. In addition, such court cases may make it more difficult and more expensive for Digital Lending Platform Sponsors to operate, which may increase the investment costs and reduce investment opportunities for the Funds.

**It is critical that prospective investors refer to the relevant Fund Documents for a complete understanding of the principal risk factors associated with an investment in the Funds. The information contained herein is a summary only and is qualified in its entirety by such documents.**

## **ITEM 9 – DISCIPLINARY INFORMATION**

There are no legal or disciplinary events to report that are material to a client's or prospective client's evaluation of HCG's advisory business or the integrity of HCG's management.

## **ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

### **Broker-Dealer Registration Status**

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

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

Neither HCG nor its management persons are registered or have an application pending to register as futures commission merchants, commodity pool operators, commodity trading advisors or associates persons of the foregoing entities.

As described in Item 4, affiliates of the General Partner act as general partner and Investment Adviser for several investment funds, including the Master Fund and Offshore Fund. The General Partner and its affiliates may also act in these or similar capacities for, and receive fees, allocations and other benefits from, other investment funds that may co-invest with the Funds in Portfolio Funds. Accordingly, investors in such other investment funds who may or may not be similarly situated to the investors of the Funds may, at any time, be invested directly or indirectly in such other investment funds on terms that are different from, and possibly more favorable than, the terms on which Master Fund and Offshore Fund investors hold their interests. Among the terms and conditions that may differ are, without limitation, rights of optional or mandatory redemption, fees or allocations payable or allocable to the General Partner or its affiliates or unaffiliated service providers and information rights and investment minimums. None of the General Partner, the Investment Adviser, the applicable Fund administrator or any of their affiliates can give any assurance to any investor that an investment in a Fund is the most beneficial or efficient manner in which to participate in the investment program represented by HCG and the selected Portfolio Funds.

## **ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

HCG has adopted a Code of Ethics (the “Code”) which is designed to meet the requirements of Rule 204A-1 of the Investment Advisers Act of 1940. The Code applies to HCG’s Access Persons (which term includes all employees of HCG) and sets forth a standard of business conduct that takes into account HCG’s status as a fiduciary and requires Access Persons to place the interests of the Funds above their own interests. The Code requires Access Persons to comply with applicable federal securities laws. Further, Access Persons are required to promptly bring violations of the Code to the attention of HCG’s Chief Compliance Officer. All Access Persons are provided with a copy of the Code and are periodically required to acknowledge receipt of the Code.

The Code incorporates the following general principles that all Access Persons are expected to uphold:

1. Access Persons will not create a conflict of interest between the Access Person’s own interest and the responsibility of the Access Person to HCG or the Funds.
2. Access Persons will not use their position with HCG for improper personal or private gain to themselves, their family or other persons. Improper use includes the use of nonpublic information or the use of one’s position with HCG to obtain gifts, discounts or other preferred arrangements from existing or potential service providers, investors or counterparties.
3. Access Persons’ personal securities transactions will be executed and reported in compliance with this Code and any other applicable federal securities regulations.
4. Access Persons who are or become aware of a violation of the Code, including their own violation, are required to report it on a confidential basis to the Chief Compliance Officer or his/her designee.
5. Retaliation against Access Persons reporting violations of the Code will not be tolerated.
6. Access Persons will periodically acknowledge their understanding of and compliance with the Code.

As required by Rule 204A-1 of the Advisers Act, HCG’s Access Persons must provide HCG’s Chief Compliance Officer with a list of their personal accounts and an initial holdings report within 10 days of becoming an Access Person. HCG also requires its Access Persons to report their securities transactions on a quarterly basis thereafter and disclose their securities holdings on an annual basis. HCG restricts the personal trading of its Access Persons. Pursuant to the Code, many personal securities transactions, including transactions in IPOs and limited offerings, must be pre-cleared with the Chief Compliance Officer.

HCG maintains a Restricted List and Access Persons are generally prohibited from trading the securities of issuers on the Restricted List. This list generally includes any issuers for which HCG has come into contact with material non-public information.

The Code of Ethics also includes insider trading policies and procedures that are designed to prevent the improper use of material, non-public information. Such insider trading policies and procedures prohibit HCG and its personnel from trading for the Funds or themselves, or recommend trading, in securities of a company while in possession of material, non-public information about the company, and from disclosing such information to any person not entitled to receive it.



In addition, the Code of Ethics seeks to ensure the protection of nonpublic information about the activities of the Funds. Fund investors or prospective investors may obtain a copy of HCG's Code of Ethics by contacting the Chief Compliance Officer at (919) 300-7702.

The Principals, senior management and employees of the Investment Adviser may choose to personally invest, directly and/or indirectly, in the Funds. Such investors may be in possession of information relating to the Fund that is not available to other Fund investors and prospective investors. The Principals and employees may also participate in future investment management services offered by HCG, including, without limitation, investment funds, separately managed accounts, proprietary accounts and other investment vehicles (collectively, "Other Accounts"). It is expected that, if such investments are made, the size and nature of these investments will change over time without notice to the Fund investors. Investments by the Principals and employees in the Funds and/or Other Accounts could incentivize the Principals and employees to increase or decrease the risk profile of the Funds.

Access Persons of HCG generally may not purchase, sell or otherwise invest in securities that HCG has also recommended to the Funds. HCG seeks to monitor the potential conflicts of interests within the firm as it relates to Access Person personal trading. HCG requires each of its Access Persons to pre-clear certain personal securities transactions. In reviewing pre-clearance requests, the Chief Compliance Officer, or his designee, considers all the facts and circumstances related to the contemplated trade, including whether any of the Funds hold, recently held or may hold the relevant security. Such pre-clearance requests are only approved by the Chief Compliance Officer, or his designee, after careful consideration to the attendant conflicts of interests (if any). Access Persons are generally prohibited from trading any security on the same day that the Access Persons knew such security was traded or would be traded on behalf of a Fund(s).

HCG may effect a securities transaction between two advisory clients for rebalancing or other purposes (each such transaction, a "cross trade") where deemed appropriate by HCG. Occasionally, and under certain limited circumstances, one or more client Funds may engage in internal cross trading transactions. HCG does not receive any compensation in addition to its regular advisory fees, and is not deemed to be a broker for purposes of Section 206(3) of the Advisers Act, in connection with any such transactions.

In the event that a cross trade would be in the best interests of both advisory clients and permitted under the governing documents of each advisory client, HCG may effect the cross trade.

## **ITEM 12 – BROKERAGE PRACTICES**

### **Best Execution**

Although HCG does not generally trade in listed securities, to the extent such transactions were effected by HCG, it is HCG's policy to seek best execution, based upon a number of considerations, from the brokers with whom it places trades for execution on behalf of the Funds. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the overall best qualitative execution, taking into consideration the full range of a broker-dealer's services. In selecting a broker, dealer or other intermediary, HCG considers such factors that in good faith and judgment it deems reasonable under the circumstances.

While trade price is often a significant quantitative factor in best execution, HCG also evaluates qualitative execution factors, such as research capabilities, success of prior research recommendations, ability to execute trades, nature and frequency of sales coverage, depth of services provided (including back office and processing capabilities), financial stability and responsibility, reputation, commission rates, responsiveness to HCG and the value of research and brokerage products and services provided by such brokers.

### **Soft Dollars**

HCG does not anticipate entering into soft dollar arrangements with respect to securities transactions on behalf of its clients. Should HCG enter into any such arrangement in the future, HCG will ensure that any soft dollars paid under such arrangement to obtain research and brokerage services will be undertaken in accordance with "safe harbor" under Section 28(e) of the U. S. Securities Exchange Act of 1934, as amended.

## **ITEM 13 – REVIEW OF ACCOUNTS**

The Funds' portfolios are reviewed on a continuous basis. HCG's investment personnel hold investment meetings to discuss investment ideas, investment strategies, economic developments, current events, and other issues related to current portfolio holdings and potential investment opportunities. HCG will provide each investor in a Fund with the following reports in accordance with the terms of the applicable Fund Documents: (i) a commentary discussing the results of the Fund's investments on at least a quarterly basis; (ii) monthly updates on each investor's net asset value as calculated by the Fund's administrator; (iii) annual audited financial reports; and (iv) annual tax information necessary to complete any applicable tax returns.

## **ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION**

The General Partner and/or the Investment Adviser may sell Fund interests through broker-dealers, placement agents and other persons and pay a marketing fee or commission in connection with such activities, including ongoing payments, at the General Partner's or the Investment Adviser's own expense. In certain cases, the General Partner and/or the Investment Adviser reserve the right to deduct a percentage of the amount invested by an investor in the Funds to pay sales fees or charges, on a fully disclosed basis, to a broker-dealer, placement agent or other person based upon the capital contribution of the investor introduced to the Funds by such broker-dealer, agent or other person. Any such sales fees or charges would be assessed against the referred investor and would reduce the amount actually invested by such investor in the Funds.

The Investment Adviser may also enter into fee sharing arrangements with third party marketers or solicitors who refer investors to the Funds. Such third party marketers may have a conflict of interest in advising prospective investors whether to purchase or redeem interests in the Funds.

Other than the circumstances described above, HCG does not receive any economic benefits from non-clients in connection with the provision of investment advice to the Funds.

## **ITEM 15 – CUSTODY**

The Investment Adviser is deemed to have custody of client funds and securities pursuant to Advisers Act Rule 206(4)-2 (the “Custody Rule”).

In accordance with the provisions of the Custody Rule, HCG maintains the assets of the Funds in accounts with “qualified custodians” as defined in Rule 206(4)-2. However, it will not be required to comply (or will be deemed to have complied) with certain requirements of the Custody Rule with respect to the Funds because it will comply with the provisions of the so-called “Pooled Vehicle Annual Audit Exception,” which, among other things, requires that the Funds be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that each Fund distribute its audited financial statements to all investors within 120 days of the end of its fiscal year.

## **ITEM 16 – INVESTMENT DISCRETION**

In accordance with the terms and conditions of the Fund Documents and subject to the direction and control of the Funds' General Partner and Board of Directors, as applicable, HCG generally has discretionary authority to determine, without obtaining specific consent from the Funds or its investors, the securities and the amounts to be bought or sold on behalf of the Funds and to perform the day-to-day investment operations of the Funds. Additionally, the Investment Adviser or an affiliate of the Investment Adviser entered into an investment advisory agreement, or similar agreement with each Fund, pursuant to which the Investment Adviser or an affiliate of the Investment Adviser was granted discretionary trading authority.

## **ITEM 17 – VOTING CLIENT SECURITIES**

In compliance with Rule 206(4)-6 under the Advisers Act, the Investment Adviser has adopted proxy voting policies and procedures. The general policy is to vote proxy proposals, amendments, consents or resolutions (collectively, “Proxies”), in a prudent and diligent manner that will serve the applicable Fund’s or Other Accounts’ best interest and is in line with applicable investment objectives.

It should be noted that given substantially all Funds’ investments are Peer-to-Peer securities, it is anticipated that it will be extremely rare that HCG will receive proxies with respect to securities held on behalf of advisory clients. However, there may be situations where Portfolio Funds could have proxy issues. In such situations, HCG would have authority to vote proxies on behalf of a clients (assuming that HCG does not otherwise have control over the company and exercise such authority through control of the company’s board).

In evaluating how to vote a proxy, HCG will first determine whether there is a conflict of interest related to the proxy in question between HCG and the advisory clients. This examination will include (but will not be limited to) an evaluation of whether HCG (or any affiliate of HCG) has any relationship with the company (or an affiliate of the company) to which the proxy relates outside an investment in such company by an advisory client managed by HCG.

If a conflict is identified and deemed “material,” HCG will generally seek to mitigate the conflict either by the Chief Compliance Officer appointing another HCG employee who is not conflicted out to vote in lieu of the HCG employee who has the conflict of interest or by appointing an independent third party to vote the proxy.

Fund investors or prospective investors may obtain a copy of HCG’s proxy voting policies and procedures by contacting the Chief Compliance Officer at (919) 300-7702.

## **ITEM 18 – FINANCIAL INFORMATION**

HCG is not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.