



FORM ADV: PART 2A BROCHURE

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Important Disclosures:

This Brochure provides information about the qualifications and business practices of Hudson Structured Capital Management Ltd. (“HSCM”), an investment adviser registered with the United States Securities and Exchange Commission (“SEC”) under the Investment Advisers Act of 1940. Registration with the SEC as an investment adviser does not imply a certain level of skill or training. The information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

This Brochure contains certain material information in the manner and format promulgated by the SEC. Additional information, which must be read and considered with the information in this Brochure, may be found in other documents including, as applicable, registration statements, offering memoranda and/or investment management agreements, among others. Please also read and understand the entire Brochure as responses to certain Items also may respond to or provide additional or fuller information regarding the responses to other Items. This Brochure and the information contained herein is not, and should not be considered as, an offer to invest in, or to buy or sell, any interests or shares in any funds, or to participate in any investment or trading strategy. HSCM is not soliciting any action based on the Brochure and the information contained herein. Any offering or solicitation will be made only pursuant to the applicable offering documents, all of which must be read and agreed to in their entirety.

If you have any questions about the contents of this Brochure, please contact Ajay Mehra, Partner & General Counsel, at (203) 975-4859. Additional information about HSCM is available on the SEC’s website at www.adviserinfo.sec.gov.

ITEM 2: MATERIAL CHANGES

This Brochure dated March 30, 2018 amends our Brochure that was filed with U.S. SEC on March 31, 2017. There have been no material changes since such last annual update to this Brochure.

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ITEM 4: ADVISORY BUSINESS

Hudson Structured Capital Management Ltd. (“HSCM” or the “Manager”) is a Bermuda limited company that was formed in January of 2016. HSCM is an asset manager focused on alternative investments generally at the mezzanine level of risk and return with a principal emphasis on the global re/insurance and transportation sectors.

HSCM is a subsidiary of Hudson Structured Capital Management LP, a Bermuda limited partnership (the “Holding Partnership”). The General Partner of the Holding Partnership is HSCM GP LLC (the “Holding GP”), a Delaware limited liability company with Michael Millette as its managing member. Michael Millette principally owns and controls, directly and indirectly, the Holding GP, the Holding Partnership and HSCM.

HSCM primarily provides investment management services on a discretionary basis to investment funds and other investment vehicles managed by HSCM (each, an “HSCM Fund”). The HSCM Funds invest in the insurance and reinsurance (“Re/Insurance”) and transport (“Transport” or “Transportation”) sectors.

Blackstone Tactical Opportunities Fund II (“Blackstone”) has committed to invest with HSCM in the Re/Insurance and Transport sectors, each in a “fund of one” (each, or collectively as the context provides, a “Blackstone Account”) managed by HSCM that pursues the same investment objective and strategy as the HSCM Re/Insurance and Transport Funds. The Blackstone Accounts generally invest in the same investments made by the HSCM Re/Insurance and Transport Funds, respectively, on a pari passu basis, subject to a right of Blackstone to opt-out of any given investment, and subject to available capital, portfolio composition, allocation factors, and other considerations.

HSCM also provides investment management services to separate accounts and co-investment accounts on both a discretionary and a non-discretionary basis (collectively, and including as the context indicates the HSCM Funds, “Clients”).

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

The terms upon which HSCM serves as investment manager of a Client are established at the time each Client or the relationship is established and are generally set out in separate investment management agreements, limited partnership agreements, private placement memoranda and/or other governing documents for a Client (collectively, the “Governing Documents”). Terms may be changed over time by HSCM or an HSCM Fund’s general partner (a “General Partner”) or board of directors (a “Board”), as the case may be. HSCM generally provides similar services to its Clients, although HSCM may tailor specific investment management advice for a Client based on its investment objectives and strategies, and the discretionary or non-discretionary nature of the relationship. The terms of the Governing Documents vary from Client to Client.

HSCM Funds have a specified minimum initial investment as set forth in their offering documentation; generally, \$1 million or more. The minimum initial investment amount may be waived or reduced in the sole discretion of HSCM or an affiliate.

The terms of a managed account arrangement or co-investment account are governed by a written investment advisory agreement as agreed between HSCM and the Client.

As of December 31, 2017, HSCM had approximately \$660,000,000 in regulatory assets under management

managed on a discretionary basis and \$32,000,000 in regulatory assets under management managed on a non-discretionary basis.

ITEM 5: FEES AND COMPENSATION

HSCM generally receives, either directly or indirectly, advisory fees and performance-based allocations or fees in connection with the investment management services it provides to its Clients. The fees HSCM charges each Client generally is established in the written investment management agreement as agreed between HSCM and the Client. Typically, HSCM charges each HSCM Fund an asset-based advisory fee monthly in advance generally at a rate of 1/12th of 1.50% (1.50% per annum) of the net asset value of such HSCM Fund as of the first day of the calendar month. HSCM reserves the right to waive, reduce or rebate all or a portion of the advisory fee with respect to management affiliates or any other investors or receive payment of the advisory fees in arrears.

HSCM also receives, either directly or indirectly, an annual performance fee or allocation from the HSCM Funds calculated with respect to each investor in those funds. Certain HSCM Funds also pay a performance fee or allocation at each performance period, which may begin on the commencement of the HSCM Fund's operations or such other period and end on the date of termination of the management agreement with HSCM and the date of the final distribution of assets attributable to such investor's shares of the HSCM Fund (or as otherwise agreed). The performance fee or allocation borne by an investor in an HSCM Fund is calculated as a percentage generally around 15% of the net profits of such HSCM Fund attributable to each investor's shares of the HSCM Fund may be structured to be in excess of a hurdle amount, which is generally calculated in relation to net asset value as of the first day of the relevant performance period. A performance fee or allocation may also be due in connection with any non-year end withdrawal or redemption from an HSCM Fund with respect to the amount so withdrawn or redeemed. HSCM reserves the right to waive, reduce or rebate all or a portion of the performance fee with respect to management affiliates or any other investors.

Advisory fees are generally paid monthly at the beginning of the month from an HSCM Fund's assets. Performance fees or allocations are calculated and paid, or made, annually (or upon a redemption) by deducting fees directly from an HSCM Fund's assets or reallocating the performance amount to the capital account of HSCM.

The fees charged to Clients and HSCM Funds in the future may be the same as or different than the fees described herein and may be paid in advance or in arrears. Additionally, due to strategic and other relationships, classes and side letters entered into between certain HSCM Funds, HSCM and/or investors, different investors in the same HSCM Fund may be charged different fees.

The fees and expenses charged to separate account and co-investment account Clients are individually negotiated and may vary from Client to Client.

HSCM Funds incur other expenses, including, but not limited to organizational, offering and operating expenses, including, without limitation, investment-related expenses (e.g., brokerage commissions, interest on margin accounts and other indebtedness, borrowing charges on securities sold short, custodial fees, clearing and settlement charges and interest expense); interest and other fees and costs of borrowing; the fees of the HSCM Fund's administrator, the HSCM Fund's custodian and any other third-party service providers; legal expenses; legal fees and other expenses incurred in connection with regulatory filings required of the HSCM Fund or necessitated by its operations or investments, including those of HSCM such as Form PF and Form CPO-PQR, if applicable; additional legal fees associated with the documentation and review of HSCM Fund investments; travel and lodging expenses incurred in connection with the investments, business, operations or management of the HSCM Fund (including without limitation in connection with the research and due diligence of potential investments whether or not consummated); travel, lodging and other expenses of the advisory board incurred in connection with their activities on behalf of a HSCM Fund; fees and expenses relating to modelling services, software tools, programs or other technology utilized in managing the HSCM Fund (including third-party software licensing, implementation, data management and recovery services and custom development costs); research and market data (including any computer hardware and connectivity hardware (e.g., telephone and fiber optic lines) incorporated into the cost of obtaining such research and

market data); professional fees (including, without limitation, expenses of actuarial or other consultants, valuation agents and other experts); litigation and threatened litigation, if any, and expenses pertaining to legal inquiries (including regulatory “sweeps”); any and all taxes and governmental fees payable by or with respect to the HSCM Fund, its investments, or to federal, state or other governmental agencies, domestic or foreign, including corporate, real estate, stamp or other transfer taxes; wind-up and liquidation expenses, expenses relating to the maintenance of registered offices; blue sky and corporate filing fees and expenses; corporate licensing expenses; indemnification expenses; fees and expenses relating to shareholder meetings and conferences; premiums and fees for insurance to benefit, directly or indirectly, the HSCM Fund, indemnified persons and for directors’ and officers’ liability insurance or other similar insurance policies; audit and tax preparation expenses; accounting expenses; costs of printing and mailing reports and notices; corporate licensing fees and other professional fees; bank service fees; withholding and transfer fees; entity-level taxes; other expenses related to the purchase, sale or transmittal of HSCM Fund assets; and extraordinary expenses and other similar expenses related to the HSCM Fund.

Generally, expenses of the HSCM Fund will be allocated among each issued series and sub-series of shares of a HSCM Fund proportionally; provided that expenses relating specifically to one or more but not all series or sub-series of shares will be allocated among such sub-series or series in such manner as HSCM determines to be fair and reasonable. Each HSCM Fund will promptly reimburse HSCM for any expenses paid by HSCM on behalf of the HSCM Fund.

In instances where expenses are incurred by HSCM and a Client, or where expenses are incurred by one or more Clients, HSCM will seek to allocate such expenses in a manner it determines to be fair and equitable over time. As further described in Item 11 below, co-investment account Clients typically will not bear the expenses associated with a proposed transaction that is not consummated, and such broken deal expenses will instead be borne by the applicable HSCM Fund (to the extent that HSCM does not or can not reallocate the broken deal expenses between an HSCM Fund and the co-investors or other Clients).

ITEM 6: PERFORMANCE-BASED FEES/ALLOCATIONS AND SIDE-BY-SIDE MANAGEMENT

As noted in the response to Item 5 above, HSCM is eligible to receive, either directly or indirectly, annual performance allocations or performance fees from each Client. The existence of performance fees or allocations creates an incentive for HSCM to cause the Clients to make investments that are more speculative than would be the case in the absence of such incentive-based compensation or allocation. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. HSCM has procedures that it believes are reasonably designed and implemented to ensure that HSCM Funds, Clients and investors are treated fairly and equitably over time, and to prevent this conflict from influencing the allocation of investment opportunities among HSCM Funds, Clients and investors.

ITEM 7: TYPES OF CLIENTS

HSCM provides investment management services, as described above in response to Item 4, to the HSCM Funds, Blackstone, and various separate and co-investment account Clients.

Investors in HSCM Funds and managed account and co-investment account Clients generally include, among others, U.S. and non-U.S. institutional investors, pension plans, profit sharing plans, endowments, charitable organizations, foundations, investment funds including fund-of-funds, family offices, high net-worth individuals, and other types of investors.

As previously noted, HSCM Funds are not registered or required to be registered under the Investment Company Act and their securities are not registered or required to be registered under the Securities Act, and are privately placed to qualified investors in the United States and elsewhere. HSCM Funds have a specified minimum initial investment as set forth in their offering documentation; generally, \$1 million or more. The minimum initial investment amount may be waived or reduced in the sole discretion of HSCM.

ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Significant Investment Strategies and Methods of Analysis - General

HSCM's overall strategy is generally focused on alternative investments at the mezzanine level of risk and return with a principal emphasis on the re/insurance and transportation sectors. Investment objectives and/or parameters are fund-specific and set out in the HSCM Fund documents provided to each investor.

HSCM generally pursues its strategies in the re/insurance sector through investments in re/insurance and insurance-linked assets across all lines of business and across all instruments.

HSCM generally pursues its strategies in the transportation sector through a focus on transportation equipment finance, favoring equipment types that serve basic economic needs with industry and regulatory frameworks that are creditor-friendly. HSCM targets equipment financing in the transportation sub-sections that include, but are not limited to, the following: aviation, shipping, rail, containers, and commercial truck and auto. Portfolio allocations and investment decisions will be guided by an ongoing evaluation of the relative return available and risk exposure throughout these transportation sub-sections.

The HSCM Funds will not be limited to any particular type of insurance-based or transportation-based instrument that they may invest in, provided that the investment is otherwise consistent with the Funds' investment objectives and the criteria established for the Funds' portfolio.

Investment in both the re/insurance and transportation sectors involves risk of significant loss that investors in the HSCM Funds should be prepared to bear.

In implementing an investment strategy, HSCM does not rigidly adhere to any particular investment formula or system, but rather relies on the knowledge and judgment of its investment professionals, who may use a variety of investment methods or techniques. HSCM has or will have an investment committee with respect to each HSCM Fund comprised of the principal portfolio manager and other partners principally knowledgeable about the fund's particular sector of investment as well as at least one of each: (1) a partner of HSCM who is not principally focused on the fund's particular sector of investment, and (2) a member of HSCM's Board of Advisors. The Board of Advisors will be composed of senior industry experts who will be identified and appointed by HSCM's Board of Directors. ***For more information about an HSCM Fund's investment strategy, please see the offering materials for that HSCM Fund.***

Material Risks of Significant Investment Strategies and Primary Investments

Below is a discussion of the material risks of significant investment strategies and primary investments of the HSCM Funds. ***For more information about an HSCM Fund's risks, please see the offering materials for that HSCM Fund.***

Concentration. Depending on the investment objectives, strategies and guidelines of the particular fund, HSCM, as applicable, may establish fixed guidelines limiting the amount of fund assets that may be subject to the risks in a particular geographic region or peril and limiting the size of certain portfolio positions as a percentage of the fund account's net assets. However, such guidelines as applicable, may nevertheless allow a fund account to hold a single or few relatively large (in relation to the fund's assets) investments in a single geographic region, with the result that a loss in any such investment position or group of positions could have a material adverse effect on the fund account's investment performance.

Leverage. Depending on the investment objectives, strategies and guidelines of the particular fund account, HSCM, as applicable, may borrow money from banks, broker-dealers or other counterparties on a secured or unsecured basis, or otherwise enter into transactions that involve leverage in order to increase the amount of capital available for investments, pay operating expenses, satisfy redemption requests or for other

purposes. An HSCM Fund may also, in effect, borrow funds through entering into repurchase agreements and may leverage its investment return with derivative instruments. The use of leverage will increase the volatility of an HSCM Fund's investments and can, in certain circumstances, magnify the losses to which an HSCM Fund's investment portfolio may be subject.

Conflicts of Interest. HSCM is subject to various conflicts of interest in its relationship with a particular HSCM Fund and HSCM's affiliates. HSCM intends to manage a number of different funds with similar or different investment objectives, strategies and guidelines, which may compete with other HSCM Funds and present conflicts in the allocation of investment opportunities. HSCM will seek to allocate transactions among participating funds on a basis that is fair and equitable over time to all HSCM Funds, taking into account relevant factors, such as account size, timing or applicable investment objectives, guidelines or restrictions.

Segregated Investments. The board of directors or the general partner of an HSCM Fund, as applicable, in consultation with HSCM may from time to time designate certain illiquid investments or investments the value of which is uncertain, as investments in which only investors at the time of such designation will participate. In those cases, the board or general partner may designate such investments as "Segregated Investments." Such designation will typically be made if a covered or other pre-determined event has occurred or seems likely to occur with respect to an insurance-linked investment, because determining the level of losses when a covered event has occurred is often a highly uncertain and a protracted process. An HSCM Fund may not be able to readily dispose of Segregated Investments and, in some cases, may be contractually prohibited from disposing of such Segregated Investments for a specified period of time.

Difficult Market Conditions. The HSCM Funds are generally dependent upon conditions in the global financial, transportation, insurance and other markets and economic conditions throughout the world that are outside of HSCM's control and are difficult to predict. Factors such as, among others, interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to insurance and taxation), trade barriers, commodity prices, currency exchange rates and controls, and national and international political circumstances (including wars, terrorist acts or security operations) can have a material negative impact on the HSCM Fund's investments.

Unpredictable or unstable market conditions may result in reduced opportunities to find suitable risk-adjusted investments to deploy capital and/or make it more difficult to exit and realize value from existing investments of an HSCM Fund. It is important to understand that an HSCM Fund can incur material losses even if it reacts quickly to difficult market conditions, and there can be no assurance that an HSCM Fund will not suffer material adverse effects from broad and rapid changes in market conditions.

Investments in re/insurance risks, financing and in carefully selected transportation equipment financing exhibit relatively low correlation to the factors that influence the global equity and bond markets. However, because catastrophic and other events that affect the re/insurance and transportation sectors are unpredictable, it is entirely possible that an HSCM Fund will incur major losses at or about the same time as other components of an investor's portfolio are declining in value.

Hedging Transactions. The HSCM Funds may use a variety of derivatives and other financial instruments both for investment purposes and for risk-management purposes. However, the HSCM Funds are not obligated to, and may choose not to, hedge against risks. While an HSCM Fund may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for such HSCM Fund than if it had not engaged in any such hedging transaction. Moreover, the HSCM Funds will generally be exposed to certain risks that cannot be hedged, such as credit risk (relating both to particular securities or investments and counterparties), that HSCM can not anticipate, or that HSCM elects not to hedge.

Currency Risk. Generally, an HSCM Fund determines its net asset value in U.S. dollars and as a result it is

subject to the risk of fluctuation in the exchange rate between the local currency and dollars when investing in foreign markets, and is also subject to the risk of exchange controls.

Adverse Legal Action; Litigation. HSCM's business is subject to complex regulations. The regulatory bodies with jurisdiction over HSCM generally have the authority to conduct investigations and administrative proceedings, and to grant or cancel HSCM's authority to carry on its business. HSCM may also be subject to litigation arising from investor dissatisfaction with the performance or operations of the HSCM Funds. Such lawsuits, investigations or inquiries have the potential to be protracted, distracting to management, and/or may result in significant fines, disgorgement of profits, or penalties that could be damaging to HSCM's reputation and business. Moreover, mere allegations of improper conduct, whether the ultimate outcome is favorable or unfavorable, or negative publicity or press speculation about an investigation or proceeding, whether or not valid, could harm HSCM's reputation.

Counterparty Risk; Counterparty Credit Risk. A number of the investment techniques to be utilized by the HSCM Funds, and a number of markets in which the HSCM Funds invest, may expose it to counterparty risk, which is the risk that a counterparty will not settle a transaction in accordance with its terms. HSCM is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty.

Interest Rate Risk. The returns associated with the floating-rate securities in which the HSCM Funds may invest will be affected by changes in interest rates. In the event an HSCM Fund invests in fixed rate securities, changes in interest rates could cause the value of such securities to decline. HSCM may hedge against such fluctuations in value but is not obligated to do so. In the event that HSCM does hedge against such fluctuation, there is no guarantee that the hedge will be successful.

Risks Pertaining to the HSCM Re/Insurance Funds and Accounts

The HSCM Funds and any managed accounts that invest in insurance-linked securities and related instruments ("HSCM Re/Insurance Funds") will have exposure to the particular risks associated with such investments. These risks may include some or all of the following:

Risks Associated with Insurance-Based Instruments Generally. The HSCM Re/Insurance Funds will pursue their investment objectives by investing primarily in a diversified portfolio of insurance-based securities and other insurance-based instruments. Insurance-based instruments may incur losses including severe losses as a result of the occurrence of insured events such as natural, man-made, or other catastrophes. Catastrophes can be caused by various events, including, but not limited to, hurricanes, earthquakes, typhoons, hailstorms, floods, tsunamis, tornados, windstorms, extreme temperatures, aviation, marine and other accidents, fires, explosions, terrorism, cyber events and changes in tort awards. The incidence and severity of such catastrophes are inherently unpredictable, and the HSCM Re/Insurance Funds' losses on one or more insurance-based instruments due to such events or catastrophes could be material. A single catastrophic event could affect multiple geographic zones and lines of business or the frequency or severity of catastrophic events could exceed expectations, either of which could have a material adverse effect on the performance of the funds. Shareholders in the HSCM Re/Insurance Funds may lose all or a substantial amount of their investment if an insured event occurs that affects the contracts underlying one or more insurance-based instruments.

Natural Catastrophe Related Risks, Risks Associated with Property Catastrophe Insurance-Based Instruments Generally. The property catastrophe reinsurance business has historically been a cyclical industry, with significant fluctuations in operating results due to competition, catastrophic events, levels of reinsurance capacity, general economic, financial and social condition, legislative initiatives and other factors. This cyclicity has produced periods characterized by intense price competition due to excess underwriting capacity as well as periods when shortages of capacity permitted favorable premium levels. In addition, increases in the frequency and severity of losses suffered by reinsurers can significantly affect these cycles. It

is difficult to predict the timing of such events with certainty or to estimate the amount of loss that any given event will generate. The HSCM Re/Insurance Funds can be expected to be exposed to the effects of such cyclicalities.

Risks Associated with Catastrophe Bonds and Certain Collateralized Reinsurance Arrangements.

- Limited Resources of Issuers. The issuers of catastrophe bonds, or cat bonds, often are thinly capitalized, special purpose entities that do not have ready access to additional capital. In the event of unanticipated expenses or liabilities, such entities may not have the resources available to pay such expenses or liabilities or the required interest and/or principal on their issued securities.
- Investments of Issuers. The ability of issuers of cat bonds to provide the expected investment returns on their issued securities is based in part on such entities' investments, which may be subject to credit default risk, interest rate risk and other risks.
- Regulation. Entities that issue cat bonds may be subject to substantial regulation of their insurance and other activities. Such applicable regulation can lead to unanticipated expenses that may result in such an entity being unable to satisfy its obligations, including those related to its issued securities. Conversely, because such entities often are domiciled in non-U.S. jurisdictions, such entities may not be subject to the same degree of regulatory oversight to which investors may be accustomed to seeing issuers and insurance companies subject in the United States. Similarly, because such entities often are subject only to the laws of non-U.S. jurisdictions, it could be difficult for an investor in such an entity to make a claim or enforce a judgment against the entity or its directors or officers.
- Subordination; No Recourse. Cat bonds often are subordinated to other obligations of the issuer, such as those obligations to a ceding insurer. Consequently, if such an entity incurs unexpected expenses or liabilities in connection with its activities, the entity may be unable to pay the required interest and/or principal on its issued securities. In particular, cat bonds are issued without recourse. As a result, if an issuer of a cat bond defaulted on its obligations under the cat bond, an investor would have no recourse to recover any amount of the principal invested to purchase the cat bond.
- Lower or No Ratings. Cat bonds may receive low ratings or be unrated by rating agencies. Consequently, such securities may be relatively illiquid and subject to adverse publicity and investor perceptions, any of which may act to depress prices.

Life-Related Risks. The HSCM Re/Insurance Funds may invest in insurance-based instruments with exposure to life insurance policies or other life-related risks. The risks associated with such instruments include, but are not limited to (i) mortality risk, which is the risk that the level of death claims may differ from that which was assumed in the pricing of reinsurance contracts; (ii) morbidity risk, which is the risk that an insured person will become critically ill or disabled; (iii) lapse risk, which is the risk of a fluctuation in the rate that policies are terminated prior to their maturity date; (iv) revision risk, which is the risk of adverse variation of an annuity's amount due to revisions of the claims process; and (v) life catastrophe risk, which includes the risk of catastrophic events resulting in widespread loss of life, including natural catastrophes such as earthquakes, hurricanes, floods, tsunamis and volcanic eruptions, pandemics, and acts of war, terrorism or other natural, man-made, or other catastrophic events. HSCM will endeavor to ascertain the quality of the business and appropriate pricing for the risks HSCM Re/Insurance Funds are exposed to. Among other things, these processes rely heavily on underwriting, analysis of mortality and morbidity trends, lapse rates, expenses and an understanding of medical impairments and their effect on mortality or morbidity.

Mortality, morbidity and lapse experience is expected to fluctuate somewhat from period to period, but should

remain reasonably predictable over a period of many years. Mortality, morbidity or lapse experience that is less favorable than the mortality, morbidity or lapse rates that were used in pricing insurance-based instruments will negatively affect performance because the premiums received for the risks assumed may not be sufficient to cover the claims and profit margin. Furthermore, even if the total benefits paid over the life of the contract or instrument do not exceed the expected amount, unexpected increases in the incidence of death or illness can cause the relevant (re)insurer to pay more benefits in a given reporting period than expected.

Modeling Risk. Projections utilized by HSCM in connection with the construction of the HSCM Re/Insurance Funds' portfolios of risk are based in part on information taken from third parties and from financial, actuarial and stochastic models, and on certain significant assumptions. Many of the assumptions, inputs or data used in these models may be based on estimates that have not been verified or audited and which may be unreliable. Many reinsurance risks are inherently unpredictable, and the output of the models is dependent upon the quality and accuracy of the data and assumptions used. Both the underlying factors driving risks and the theory to account for risks change over time, and models must be expected to change as well. There is a risk that such factors do change and that a model does not. In addition, the underlying contracts may be exposed to risks that are not captured or are not captured effectively by the models. Failures or inadequacies in modeling could lead to results differing materially from the projections.

Projections are subject to considerable uncertainty, particularly during periods of softening pricing and expanding coverage terms. There is often a divergence of views among market participants concerning the outlook for markets within the insurance and reinsurance industry, and the assumptions in the financial and stochastic models may differ in material respects from those of other industry participants or commentators.

Estimates of future losses incurred in relation to insurance contracts are generally based on reviews of historical data, experience and judgment. These estimates are based on long-term trends of insurance losses and, in some cases, estimates of appropriate prudence margins. These estimates may fail to take account of short- or long-term cyclical or other trends, or of potential correlations between loss events affecting different lines of business. Due to, among other things, a lack of information and uncertainty or error in extrapolating from reported information, models and estimates of losses from catastrophes or other insured events may be materially different from actual losses. In the event that future losses occur that are not in line with estimates, this could result in outcomes differing materially from the projections.

No representation or warranty regarding the accuracy or completeness of any information received from third parties and used in loss modeling can be made. The results of such modeling and estimates are not to be viewed as facts or forecasts of future occurrences of catastrophes or other insured events, and should not be relied upon as a representation of the future value of an investment in the HSCM Re/Insurance Funds.

Casualty Risk. The HSCM Re/Insurance Funds may have exposure to casualty insurance risks. These include risks based on the frequency and severity of claims and the related legal liability and indemnification payment amounts. These legal liability and indemnification payments can be affected by several factors. The most significant factors are the changing legal and regulatory environment, including changes in civil liability law and jurisprudence. Additionally, due to the length of amicable, arbitral and court claims or settlement procedures, the casualty business is exposed to inflation risks regarding the assessment of claim amounts.

Workers' Compensation Risk. The HSCM Re/Insurance Funds may have exposure to workers' compensation insurance risk. Workers' compensation insurance is purchased by employers to provide protection for employees' lost wages and medical benefits in the event of work-related injury, disability, or death. The frequency and severity of claims, and the adequacy of reserves for workers' compensation claims and expenses can all be significantly influenced by such risk factors as future wage inflation in states that index benefits, the speed with which injured employees are able to return to work in some capacity, the cost and rate of inflation in medical treatments, the types of medical procedures and treatments, the cost of prescription medications, the frequency with which closed claims reopen for additional or related medical

issues, the mortality of injured workers with lifetime benefits and medical treatments, the use of health insurance to cover some of the expenses, the assumption of some of the expenses by states' second injury funds, the use of cost containment practices like preferred provider networks, and the opportunities to recover against third parties through subrogation.

Longevity Risk. The HSCM Re/Insurance Funds may have exposure to longevity risk. Longevity risk is defined as the potential for increased actual and future expected annuity payments resulting from annuitants living longer than expected, or the expectation that annuitants will live longer in the future. Longevity risk accumulates across cedents, geographies, and over time because mortality trends can impact diverse populations in the same manner. Longevity risk can manifest slowly over time as experience proves annuitants are living longer than original expectations, or abruptly as in the case of a "miracle drug" that increases the life expectancy of all annuitants simultaneously.

Marine Risk. The HSCM Re/Insurance Funds may have exposure to marine and related property risks. Typical property covered by marine and other major property contracts includes, among others, fixed and moveable assets such as ships and other vessels, cargo in transit, energy platforms and installations, pipelines, other subsea assets, satellites, commercial buildings and industrial plants and machinery. These assets are typically exposed to a blend of catastrophic and other large loss events and attritional claims arising from conventional hazards such as collision, flooding, fire and theft. Climatic changes may give rise to more frequent and severe extreme weather events (for example, earthquakes, windstorms and river flooding, etc.) and their frequency may increase over time. Marine and major property contracts are normally underwritten by reference to the commercial replacement value of the property covered. The cost of repairing or rebuilding assets, or replacement or indemnity for contents and time taken to restart or resume operations to original levels for business interruption losses are the key factors that influence the level of claims under these policies.

Pandemic Risk. The HSCM Re/Insurance Funds may have exposure to pandemic risk. Pandemic risk is the risk of an increase in mortality over an annual period associated with a rapidly spreading virus (either within a highly populated geographic area or on a global basis) with a high mortality rate. While mortality risk is highly diversifying in relation to other risks in the funds' portfolio, mortality risk itself is a systemic risk when the risk driver is a pandemic with little opportunity to diversify within the risk class. Mortality risk from pandemics can accumulate across cedents and geographies.

Political & Terror. There is a risk of terrorist attacks throughout the world, potentially causing significant loss of life and property damage and disruptions in global markets. Events such as acts of terrorism, acts of war, nuclear accidents and other incidents related to political instability and social upheaval are often unforeseen. These incidents are inherently unpredictable, both in relation to frequency and to severity of losses. It is difficult to predict the timing of such events with statistical certainty. Some reinsurance business assumed by a reinsurer in which the HSCM Re/Insurance Funds invest or other investments made by the HSCM Re/Insurance Funds may include exposure to such terrorist actions, acts of war or other incidents of political upheaval, and may require a reinsurer to pay claims arising from such events. Economic and diplomatic sanctions may be in place or imposed on certain states, and military action may be commenced. The impact of such events is unclear but could have material adverse effects on general economic conditions and market liquidity. Some investments made by the HSCM Re/Insurance Funds may include exposure to such terrorist action and may expose the funds to losses arising from such events. Terrorist action is inherently unpredictable, both in relation to frequency and to severity of losses. It is difficult to predict the timing of terrorist actions with statistical certainty or to estimate the amount of loss that any action may generate.

Securitizations. Under certain circumstances, HSCM may seek to securitize (or re-securitize) certain of the HSCM Re/Insurance Funds' investments. It is unclear to what extent a satisfactory market might exist for securitized or re- securitized insurance-linked assets if and when HSCM wishes to execute this strategy. Furthermore, the issuance of any such securities would involve significant risks to the funds, risks which in

many cases would not be present but for the Fund's decision to issue such securities. In many cases, the HSCM Re/Insurance Funds may be required to indemnify certain parties and provide other types of recourse to the funds in order to issue the securities. Also, in connection with any issuance, the HSCM Re/Insurance Funds will be taking on securities law liabilities relating to the securities it issues. There can be no assurance that a market for any such securities will develop or, if it does, that it will meet the needs of the funds to monetize or leverage its position in the securitized assets.

Illiquidity of Investments. Investments in insurance-based instruments can be difficult to sell quickly, which may affect the value of the HSCM Re/Insurance Funds and its ability to distribute proceeds in a timely manner following the expiration of the HSCM Re/Insurance Funds' term. The secondary market for insurance-based instruments may experience limited liquidity. In situations where a large catastrophe has occurred or appears likely to occur, liquidity for potentially affected insurance-based instruments may be diminished or completely eliminated. Furthermore, if one or more catastrophic or other events result or could result in losses under a reinsurance contract or other collateralized instruments in which the HSCM Re/Insurance Funds invest, all or a significant portion of the collateral associated with such investment may be held for a significant period as a reserve against loss developments or could be lost.

HSCM manages each HSCM Re/Insurance Fund's liquidity through the Fund's closed-end structure, and with a view toward the Fund's requirements for paying expenses. Liquidity is generally provided by additional capital calls and the proceeds of investments. As the HSCM Re/Insurance Funds may invest in illiquid assets, shareholders in the Funds will generally be required to bear the risk of a proportion of their investment for such period of time as it takes to realize such illiquid assets.

Valuation Risk. The unpredictable nature of catastrophes and other insured events makes it difficult to determine whether a particular insurance-based instrument is fairly priced in the ordinary course of trading to the extent that any such trading takes place. Valuation may also be affected by a number of factors, such as whether a loss event is likely to occur or has occurred or whether, in the case of property catastrophe re/insurance, a catastrophe season has passed. The valuation models used in the insurance-based instrument markets attempt to simulate fundamentally unpredictable events and there could be periods of time when trading ceases or is interrupted as result of such market's inability to value the instruments.

The lack of an actively traded market also creates a potential uncertainty of valuation issues. A number of brokers provide regular indicative pricing for certain insurance-based securities such as cat bonds. However, the ultimate value of the securities may vary. With privately negotiated or illiquid transactions, there will be no such price at all. The model-based valuation of those other instruments is derived from individual models for which the accuracy, assumptions and inputs used may lead to considerable valuation uncertainties.

Risks Pertaining to the HSCM Transport Funds and Accounts

The HSCM Funds and any managed accounts that invest in transportation industry assets ("HSCM Transport Funds") will have exposure to the particular risks associated with such assets. These risks may include some or all of the following:

Risk of Investing in the Transportation Industry Group. Issuers in the transportation industry group can be significantly affected by economic changes, fuel prices, labor relations, technology developments, exchange rates, industry competition, and insurance costs. Transportation companies in certain countries may also be subject to significant government regulation and oversight, which may adversely affect their businesses. Other risk factors that may affect transportation companies include the risk of increases in fuel and other operating costs and the effects of regulatory changes or other government decisions. Companies in the transportation industry group may be adversely affected by adverse weather, acts of terrorism or catastrophic events, such as air accidents, train crashes or tunnel fires. Companies in the transportation industry group may also be subject to the risk of widespread disruption of technology systems and increasing equipment and operational costs.

Mezzanine and Senior Bank Loans and Participations. The HSCM Transport Funds' investments may be comprised of privately negotiated bank loans or loans acquired through assignment or participations. These loans may be senior or mezzanine (subordinated or second lien) and may be secured or unsecured, and are generally used to acquire or otherwise finance transportation or transportation-related equipment. Although senior and mezzanine loans will typically be secured by collateral, there can be no assurance that such collateral could be readily liquidated or that the liquidation of such collateral would satisfy the borrower's obligation in the event of non-payment of scheduled interest or principal. Such collateral may be subject to complex, competing legal claims. In addition, the security granted in respect of such investments may be unperfected for a variety of reasons, including the failure to make required filings by lenders, and other creditors may have priority over such investments. Senior loans and mezzanine loans also generally provide for restrictive covenants designed to limit the activities of the obligors thereunder in an effort to protect the rights of lenders to receive timely payments of interest on, and repayment of, principal of the loans. There can be no assurance that borrowers will comply with such covenants.

Bank loans have significant liquidity and market value risks since they are not generally traded on organized exchange markets but are traded by banks and other institutional investors engaged in loan syndications. Because loans are privately syndicated and loan agreements are privately negotiated and customized, loans are not purchased or sold as easily as publicly traded securities. The subordination of second lien loans is also expected to cause second lien loans to be more risky and more illiquid than senior secured loans. Loan obligations are subject to unique risks, including:

- (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws;
- (ii) so-called lender-liability claims by the issuer of the obligations;
- (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and
- (iv) limitations on the ability of the fund to directly enforce its rights with respect to participations.

Mezzanine and High Yield Debt Securities. The HSCM Transport Funds' investments may be comprised of mezzanine (subordinated) or senior debt securities issued in the High Yield or ABS markets. These securities may be purchased at new issue or in the aftermarket and may be privately-negotiated or part of a broad capital market syndication. Such investments may be secured or unsecured debt obligations often by an obligor rated below investment grade. The yields and prices of lower-rated securities may tend to fluctuate more than those for higher-rated securities. In addition, adverse publicity and investor perceptions about lower-rated securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of these securities. Mezzanine securities, by the nature of their issuers' leveraged capital structures, involve a high degree of financial risk. These securities may be unsecured and/or subordinated to substantial amounts of senior indebtedness, all or a significant portion of which may be secured. In addition, these securities may not be protected by financial covenants or limitations upon additional indebtedness and may have limited liquidity. Mezzanine investments often reflect a greater possibility that adverse changes in the financial condition of the obligor or general economic conditions (including, for example, a substantial period of rising interest rates or declining earnings) or both may impair the ability of the obligor to make payment of principal and interest. Some issuers of a fund's investments may be highly leveraged, and their relatively high debt-to-equity ratios create increased risks that their operations might not generate sufficient cash flow to service their debt obligations. Overall adverse conditions in the high-yield bond, ABS and other markets may adversely affect such issuers by inhibiting their ability to refinance their debt at maturity.

Market and Credit Risks of Debt Securities. In general, the HSCM Transport Funds' investments will expose it (directly or indirectly) to "credit risk," because debt securities are subject to credit risk. "Credit risk" refers to the likelihood that an issuer will default in the payment of principal and/or interest on an instrument and how this risk changes over time. Financial strength and solvency of an issuer and the priority of the lien are

the primary factors influencing credit risk. In addition, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Certain of the investments may have an interest-only payment schedule, with the principal amount remaining outstanding and at risk until the maturity of the investment. In addition, certain instruments in certain circumstances may provide for payments-in-kind interest, which has a similar effect of deferring current cash payments.

Investments in E-Notes, Joint Ventures and Equity Securities. The HSCM Transport Funds may invest in E-Notes (which is an equity interest in Asset-Backed Securitizations of transportation equipment), joint ventures with lessors to acquire pools of transportation assets, or may hold or come into the possession of common stock, warrants to acquire common stock and/or other equity securities related to transportation investments or investment opportunities. Such E-Notes, joint venture investments and equity securities will generally involve a high degree of risk, and will be subordinate to (and thus are inherently riskier than) the debt securities and other liabilities of the issuers of such equity securities. The E-Notes, joint venture positions and equity securities a fund acquires may fail to appreciate in value and may decline in value or become worthless. Accordingly, a fund may not be able to realize gains from such equity securities and may incur significant losses.

ITEM 9: DISCIPLINARY INFORMATION

Neither HSCM nor any of its management persons have any legal or disciplinary events that would be material to a client's or prospective client's evaluation of HSCM or the integrity of HSCM's management.

ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

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

As described above, HSCM serves as investment adviser to the HSCM Funds and is affiliated with the general partner(s) to the HSCM Funds organized as limited partnerships and with the managing member(s) to the HSCM Funds organized as limited liability companies.

HSCM is subject to various conflicts of interest in its relationship with any one HSCM Fund and HSCM's affiliates and Blackstone. HSCM manages a number of different funds with similar or different investment objectives, strategies and guidelines, which may compete with other HSCM Funds and Clients, and present conflicts in the allocation of investment opportunities, among others. HSCM will seek to allocate transactions among participating funds on a basis that is fair and equitable to all HSCM Funds, taking into account any relevant factors, such as account size, or applicable investment objectives, guidelines or restrictions.

Each HSCM Fund's Private Placement Memorandum, or other offering documentation, enumerates certain potential conflicts of interest that should be carefully evaluated, understood, and agreed before making an investment in such fund, including: performance allocation/fees, other fees and expenses, and portfolio company relationships.

The Manager and its investment professionals are subject to various conflicts of interests. A number of the Manager's professional investment professionals have spouses who are in the same industry, and in certain instances with firms which the Fund will engage in business, such as, among others, Re/Insurance brokers. A number of the Manager's professional investment professionals have been associated with, and have investments in, firms that are engaged in the Re/Insurance industry, among others, and with which the Fund has or will engage in business. The Manager's relationship with Blackstone and management of the Blackstone Accounts creates conflicts of interest. Various members of the firm have passive equity interests in former businesses. HSCM and its professionals will seek to avoid the conflict by taking actions necessary to eliminate the conflict, or mitigate it, as applicable; such actions may include, but are not limited to, the professional being recused from participating in investment decisions that involve a material conflict of interest, or disclosing information and/or seeking consent from investors in HSCM Funds.

ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Code of Ethics and Personal Trading

HSCM has adopted a Code of Ethics (the “Code”) in accordance with Rule 204A-1 under the Advisers Act. The Code is based on HSCM’s fiduciary duty to its clients. The fundamental tenants of the Code include: (1) place the interests of clients first; (2) conduct personal securities transactions in a manner so as to be consistent with the Code and avoid any actual or potential conflicts of interest or any abuse of an HSCM employee’s position of trust and responsibility; (3) refrain from taking inappropriate advantage of the relationship with clients; (4) maintain the confidentiality of security holdings and financial circumstances of clients; and (5) maintain independence in the investment decision-making process.

As a fiduciary, HSCM and its employees owe an affirmative duty of care, loyalty, honesty, and good faith to act in the best interests of its clients. Generally, the Code imposes the following five basic requirements on HSCM and its employees: (1) they should comply with all applicable federal and state laws and regulations; (2) they should avoid conflicts of interest and disclose all material facts concerning any conflict that may arise with respect to any client; (3) their conduct should conform with the ethical standards set out in the Code; (4) their personal securities transactions should comply with the Code; and (5) they should obtain prior approval for certain personal securities transactions as described under the Code. HSCM forbids the illegal use of material non-public information in trading securities, regardless of whether the trades are executed for client accounts or for a personal securities account.

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

The Code includes a personal securities investment and reporting policy. This policy, among other things, restricts an employee’s ability to engage in certain personal securities transactions without the prior approval of HSCM’s chief compliance officer (or delegatee) and requires reporting of any such transactions.

In addition, the Code generally seeks to prohibit access persons from buying or selling any security for his or her account if he or she knows at the time of the transaction that the security is being purchased or sold, or is being considered for purchase or sale by an HSCM Fund, subject to certain exceptions. The Code enables access persons to purchase securities in private placements, provided that he or she makes certain representations and obtains prior approval from HSCM’s chief compliance officer (or delegatee). The Code also requires confidential treatment of information acquired at HSCM, and contains political contributions, outside activities and gift and entertainment policies, among other items.

A copy of HSCM’s Code of Ethics will be provided upon request.

Participation or Interest in Client Transactions

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

It is HSCM’s policy that neither HSCM, nor any person in a control relationship with HSCM, nor any

employee of HSCM shall effect transactions as a principal with any HSCM Fund unless such transactions are in compliance with the provisions of Section 206(3) of the Advisers Act. HSCM has adopted a cross trade policy to govern how HSCM processes a coordinated purchase of a security or investment on behalf of one HSCM Fund and a sale of the same security or investment on behalf of another HSCM Fund at the same time (a “cross trade”), which includes monthly rebalancing of a fund’s portfolio.

HSCM, its affiliates, their employees and relatives of the employees may invest, directly or indirectly, in HSCM Funds to the extent that they meet the relevant fund’s suitability requirements. The terms of investment, including economic and liquidity terms, applicable to such investors, as well as certain large or strategic investors may be more favorable than the terms available to other investors in a fund and the other investors will not be provided with notice of such terms or an opportunity to invest on such terms absent an express contractual undertaking on behalf of HSCM. Additionally, HSCM employees and certain former employees and their family members may be charged a lower (or no) advisory and performance fee than other fund investors.

HSCM, its officers, directors and employees may trade securities or investments for their own accounts, including securities or investments held by an HSCM Fund. HSCM, its officers, directors and employees may from time to time take positions in their proprietary accounts that are opposite the positions taken for, or held by, a fund or client. HSCM, its officers, directors and employee may receive more favorable execution than the funds or clients. Personal transactions should comply with the Code, which is discussed above.

Allocation of Investment Opportunities

In allocating investment opportunities among clients, it is HSCM’s policy that Clients should be treated fairly over time and that, to the extent possible, Clients should receive equivalent treatment. Notwithstanding the foregoing statement, HSCM currently has an investor (Blackstone) whose investment allows them to have certain decision-making rights with respect to which investments they may make. These rights, which are different than certain other investors may have, are fully disclosed in HSCM’s private placement documents.

There is a potential conflict of interest when determining the allocation of limited investment opportunities across Clients with similar investment mandates. To mitigate the risk of favoring certain funds over others, HSCM has adopted an allocation policy pursuant to which it will seek to allocate investment opportunities among its clients in a manner that, over time, is on a fair and equitable basis. In allocating investment opportunities among its clients, HSCM makes a determination, exercising its judgment in good faith, as to whether an opportunity is appropriate for each client. Factors in making such a determination may include, among others, a client’s liquidity, investment objectives and investment strategies of the client, the client’s risk profile and tax status, the regulatory constraints of the client, the composition of the client’s existing portfolio, the current total portfolio of invested positions, the size, timing or amount of the available opportunity, the nature of the securities or investments involved, the liquidity of the markets in which the investments trade, the risks involved, a client’s ability to opt-out of an investment, and any other factors determined to be relevant to the fair allocation of investment opportunities.

Co-Investments

- HSCM will evaluate if privately placed investment opportunities are of a size and nature that they would be suitable for co-investments, including factors such as the dollar size of the opportunity, the aggregate size of the clients’ orders, the issuer’s or counter-party’s interest in having additional investors in addition to the client funds, the advantages to the client funds in the immediate transaction or long-term based on development of relationships and industry reputation that arises from making larger aggregate size investments in private investment opportunities, and the likely interest of investors in the client funds and other parties in making co-investments.

- If HSCM determines that an investment opportunity is suitable for co-investment it will offer it to any parties to whom it has contractually agreed to provide co-investment opportunities based on the terms of such agreement, other investors and third parties whom HSCM believes would have financial resources and sophistication that would enable them to act on in a timely and effective manner and would be interested in such co-investment based on their expressed interest in co-investments in various sectors, and principals and sophisticated employees of HSCM.
- HSCM will only permit principals and sophisticated employees to invest in co-investment opportunities if it offers the co-investments to external parties and suitable client fund investors as set forth above.
- All co-investors including principals and sophisticated employees of HSCM will participate in co-investments on a pari passu basis based on their respective order sizes.
- Client funds will receive preference on allocations of any investments in which co-investors participate, and if there after investment orders have been submitted the opportunity is cut-back by the issuer or counter-party, co-investors are expected to have their orders cut back pro rata prior to any cut-back of client funds' order.

HSCM may in its sole discretion structure any co-investment opportunity such that the proposed participants in such co-investment opportunity do not bear any broken deal expenses, with the result that an HSCM Fund will bear all such broken deal expenses; provided, if so structured, that such participants will not be entitled to receive any break-up or similar fee income, if any, that may be earned with respect to such transaction. Consequently, an HSCM Fund typically bears all such broken deal expenses (and in such case would be entitled to any such break-up or similar fee income, but there may be instances in which an HSCM Fund will bear all broken deal expenses without the benefit of any break- up or similar fees). Alternatively, HSCM may determine to allocate broken deal expenses on a pro rata basis between an HSCM Fund, clients and the co-investors.

Trade Errors

HSCM will seek to detect prior to settlement and promptly correct and mitigate any losses resulting from trade errors and similar human errors involving any transaction on behalf of an HSCM Fund, including: (i) the placement of orders (either purchases or sales) in excess of the amount of securities or investments the HSCM Fund intended to trade; (ii) the sale of a security or investment when it should have been purchased; (iii) the purchase of a security or investment when it should have been sold; (iv) the purchase or sale of the wrong security or investment; (v) the purchase or sale of a security or investment contrary to regulatory restrictions or investment guidelines or restrictions; and (vi) incorrect allocations of securities or investments (collectively, "Trade Errors"). If HSCM or other indemnified person, as set out in the applicable investment management agreement ("Management Agreement") between an HSCM Fund and HSCM, (or broker or agent selected, engaged or retained by an indemnified person) is entitled to exculpation pursuant to the Management Agreement in connection with acts or omissions that result in any realized and unrealized depreciation in the value of, and expense or other loss incurred with respect to, a security or investment held by the HSCM Fund attributable to any Trade Error ("Trade Error Loss"), such Trade Error Loss will be borne directly out of the assets of the HSCM Fund. HSCM will evaluate each Trade Error to determine whether a particular Trade Error Loss should be borne by an HSCM Fund. To the extent that a Trade Error is caused by a counterparty of an HSCM Fund, such as a broker or agent, HSCM will seek to recover any related Trade Error Losses from such counterparty. Any Trade Error Losses for which HSCM or an indemnified person is liable will be netted against any realized and unrealized appreciation in the value of, and dividend, interest or other gain earned with respect to, securities or investments held by an HSCM Fund attributable to Trade Errors.

ITEM 12: BROKERAGE PRACTICES

Selecting or Recommending Broker-Dealers

HSCM is authorized to select securities brokers on behalf of the HSCM Funds, and may change brokers in its sole discretion. HSCM is not required to consider any particular criteria in choosing brokers and dealers. HSCM seeks “best execution” of transactions. What constitutes “best execution” and determining how to achieve it involves many factors, including subjective factors. In evaluating whether a broker or dealer will provide best execution, HSCM considers a range of factors. These include, among others:

- financial stability and the reputation of the broker, dealer or intermediary;
- the actual executed price of the investment and the commission rates of the broker, dealer or intermediary;
- the quality of the research (including economic forecasts, investment strategy advice, fundamental and technical advice on individual securities or investments, valuation advice and market analysis), custodial and other services provided by such brokers and/or dealers or intermediaries that are expected to enhance HSCM’s general portfolio management capabilities;
- the size and type of the transaction;
- the difficulty of execution and the ability to handle difficult trades;
- the known availability of the investments through other brokers or intermediaries;
- the access to future investments through such broker or intermediary;
- the private or other limited nature of such investment;
- the operational facilities of the brokers and/or dealers or intermediaries involved (including back office efficiency); and
- the ability to handle a block order for securities or investments, and distribution capabilities.

Although the obligation to obtain best execution is typically referred to in the context of public securities, HSCM’s obligation to seek best execution extends to private investments, and HSCM will seek to ensure that a client pays no more than HSCM’s perceived fair value for a private investment, as well as reasonable and customary fees for services consumed to complete the transactions.

Research and Other Soft Dollar Benefits

HSCM may select broker-dealers in recognition of the value of various services or products, beyond transaction execution, that they provide to an HSCM Fund, to HSCM or to its clients. Selecting a broker-dealer in recognition of the provision of services or products other than transaction execution is known as paying for those services or products with “soft dollars.” The amount of compensation (including markups, markdowns and commission equivalents on principal transactions with market-makers) a Client pays a broker-dealer who provides such services and/or products may be higher than what another, equally capable broker-dealer might charge. Any soft-dollar arrangements entered with a broker-dealer will be consistent with Section 28(e) of the Securities Exchange Act of 1934, which permits the use of soft dollars in certain circumstances. Where research services also assist HSCM in performing non-investment decision-making functions (such as accounting, record keeping or administrative services), HSCM will, as applicable, make a reasonable allocation of the cost of the service according to its use and use brokerage commissions to pay only for the research-related component.

Brokerage for Client Referrals

In selecting or recommending a broker-dealer, HSCM does not consider as a factor whether or not HSCM will

receive client or investor referrals from a broker-dealer or third party.

Directed Brokerage

HSCM determines the selection of particular broker-dealers for investment transactions of Clients, subject to HSCM's policy to seek best execution for such transactions. HSCM does not recommend, request or require that an HSCM Fund or Client direct it to execute transactions through a specified broker-dealer, nor does HSCM permit HSCM Funds or Clients to direct brokerage.

Aggregation of Client Orders

From time to time, it may be appropriate for HSCM to aggregate client orders for the purchase or sale of securities and other investments at the same broker-dealer or with the same issuer or counter-party. HSCM will generally follow the guidelines set out below in aggregating client orders, including any orders placed for private investment vehicles:

- No investment advisory client will be favored over any other investment advisory client unless otherwise permitted or allowed under appropriate policies and procedures; and
- Each client that participates in an aggregated order will participate at the average price for HSCM's transactions in that investment on a given business day or such shorter period, as applicable and transaction costs will be shared pro rata based on each client's participation in the aggregated order.

Specific allocations of orders will generally be made as set out below.

- If each portfolio for more than one client is generally similar in investment strategy and composition, the order may be allocated pari passu based on the aggregate of the net asset value and undrawn capital commitments of such client fund (or expected assets under management) based on the appropriate sizing of the position as a percentage of each client fund's size. If the aggregate order cannot be filled in its entirety for each client, it will be allocated to each client on a pro rata basis as set forth above.
- If each portfolio for more than one client is not generally similar in investment strategy and composition, the order may be allocated pari passu based on order size. HSCM would determine in good faith the optimal order size for each client based on factors set forth above as well as other considerations. If the aggregate order cannot be filled in its entirety for each client, it will be allocated to each client pro rata to the order size for each client.

ITEM 13: REVIEW OF ACCOUNTS

HSCM's management and Investment Committee are responsible for reviewing each HSCM Fund's portfolio on a regular basis. The Investment Committee is comprised of Mr. Millette and other senior investment professionals of HSCM and also at least one member of HSCM's Board of Advisors. The responsibilities of the Investment Committee with respect to the HSCM Re/Insurance Funds generally include (i) determining the risk/return appetite of the client; (ii) creating "target" portfolios which help guide the sourcing of risk that generates the risk/return objectives for the client; (iii) reviewing individual investment proposals for the client developed by the HSCM's underwriters; and (iv) ensuring the adherence to any risk constraints adopted for the client as market conditions develop. The responsibilities of the Investment Committee with respect to HSCM's Transport Funds generally include reviewing (i) investment and portfolio allocation strategies for the client; (ii) individual investment proposals for the client developed by HSCM's investment team; and (iii) adherence to any risk constraints already established within the investment guidelines or that may be adopted for the client as market conditions develop.

HSCM's partners are active in overseeing and participating in investment and business decisions for HSCM's clients, including discretionary and non-discretionary clients as applicable and deemed appropriate, as well as decisions with respect to co-investment opportunities and vehicles. HSCM has structured the investment approval, portfolio construction and exposure monitoring process to assure rigorous risk analysis. HSCM conducts quarterly reviews of macro, sector and subsector trends and outlooks to seek to identify and adjust the portfolios to potential risks.

Investors in each HSCM Fund will receive monthly unaudited account statements, periodic performance reports from HSCM and annual audited financial statements.

ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION

HSCM does not participate in arrangements with non-clients that result in HSCM receiving an economic benefit for providing investment advice or other services to its clients. HSCM has an arrangement (and may enter into additional future arrangements) whereby it or an affiliate compensates placement agents/brokers or other parties in amounts generally equal to a percentage of the aggregate interests that are subscribed for by certain investors in HSCM Funds or other Clients.

ITEM 15: CUSTODY

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

ITEM 16: INVESTMENT DISCRETION

HSCM has discretionary authority to manage the portfolios of the HSCM Funds and certain other Clients pursuant to investment management agreements with the HSCM Funds and such other clients, which customarily do not place limitations on HSCM's authority to manage an a Client's portfolio.

ITEM 17: VOTING CLIENT SECURITIES

HSCM has adopted proxy voting policies and procedures, which are summarized below.

HSCM's policy is to vote or abstain from voting proxy proposals, amendments, consents, or resolutions (collectively, "proxies") on behalf of accounts managed by HSCM in a manner that serves the best interests of the HSCM Funds or respective Clients. Prior to voting any proxies with respect to an HSCM Fund or other Client, HSCM will review the applicable proxy solicitation materials for any potential material conflicts of interest. If a material conflict of interest is identified, HSCM will determine what course of action is in the best interests of the HSCM Fund or other Client.

HSCM's chief compliance officer (or delegatee) will periodically review HSCM's proxy voting practices.

Upon request of a client to HSCM's chief financial officer, HSCM will provide a copy of its proxy voting policies and procedures and provide information regarding how proxies have been voted.

ITEM 18: FINANCIAL INFORMATION

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

ITEM 19: REQUIREMENTS FOR STATE-REGISTERED ADVISERS

This Item is not applicable to HSCM.