

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

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This brochure provides information about the qualifications and business practices of Lee Capital Management LP. If you have any questions about the contents of this brochure, please contact us at (212) 888-1500. 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 us is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**We refer to ourselves as a "registered investment adviser". Registration does not imply a certain level of skill or training.**

**Item 2. Material Changes**

This document serves as our Brochure and amends our Brochure dated March 30, 2017. This Brochure contains the following update of note: update relating to individual managed account business.

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## **Item 4. Advisory Business**

### **Advisory Business and Ownership**

Lee Capital Management LP ("LCM", "we" or "us") is a Delaware limited partnership formed in January 2014 with its principal place of business in New York, N.Y. Thomas H. Lee Capital, LLC ("Thomas H. Lee Capital"), a Delaware limited liability company, serves as the general partner of, and controls, LCM. Mr. Thomas H. Lee (the "Principal") is the owner of Thomas H. Lee Capital.

### **Types of Clients**

LCM provides discretionary investment advisory services for separately managed account ("separate accounts") and non-discretionary investment advisory services to registered investment advisers, corporations and other legal entities (generally referred to herein as "non-discretionary accounts").

### **Types of Services Offered**

Discretionary investment advisory services are provided to clients in accordance with the terms and restrictions of such client's investment advisory agreement, investment management agreement, limited partnership agreement, and other governing agreements and documents (collectively, the "Governing Documents"). These investment advisory services include advice with respect to a broad range of U.S. and non-U.S. securities and instruments and other assets, as discussed below, as well as model portfolios which are based on the client's investment objectives.

With respect to non-discretionary accounts, LCM provides model portfolios to registered advisers and other entities which are not customized to the circumstances of the end client.

LCM provides discretionary investment advice with respect to a broad range of domestic and foreign financial securities and instruments, and other assets, in a variety of forms. LCM offers advice with respect to, without limitation: exchange-traded funds, equity and debt instruments, including equity and non-equity related swaps, options, commodities, foreign currencies, futures and forward contracts; and other investment companies, including private investment funds and mutual funds ("portfolio investments"). Portfolio investments may include, among other things, commodity pools, hedge funds, real estate partnerships, debt funds of various countries, oil and gas investment vehicles, bankruptcy funds, private equity funds, venture capital investments and funds investing in special situations. A client may also, without limitation, elect to: hedge a portion or all of its investment portfolio; utilize leverage; and enter into short positions.

LCM reserves the right, in its sole discretion, to delegate a portion of assets to sub-advisors, including affiliates, subject to certain contractually negotiated standards and, in certain cases, with defined guidelines or restrictions (“External Managers”). LCM has entered into an agreement with one or more External Managers to provide discretionary investment management services and administrative services (including customary middle and back office support) for certain separate accounts.

### **Wrap Fee Programs**

LCM does not participate in wrap fee programs.

### **Assets Under Management**

As of January 31, 2018, LCM managed \$204,738,693 of client assets on a discretionary basis and \$5,808,468 on a non-discretionary basis.

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

### **Advisory Fees**

Discretionary separate accounts generally pay an advisory fee ranging from 0% to 0.55% on an annualized basis. These advisory fees are paid in advance at the beginning of each calendar quarter based on the ending balance of the previous quarter of the respective account assets relying on the services provided by LCM. Such advisory fees are for advisory services only and do not include custodial fee, transaction expenses or any other similar fees or expenses.

Non-discretionary accounts generally pay LCM a fee ranging from 0% to 0.50% on an annualized basis. These fees are paid at the end of each calendar quarter based on the average daily balance over the billing period of the advisory account assets relying on the services provided by LCM. No fee is payable prior to the rendering of services. Such fees are for non-discretionary investment advice from LCM only and do not include custodial fee, transaction expenses or any other similar fees or expenses.

Fees charged to LCM’s clients are subject to negotiation, and existing accounts may be paying higher or lower rates than those described above.

### **Discretionary Separate Accounts - External Manager Compensation**

A separate account can invest a significant amount of their capital in portfolio investments. The separate accounts pay or otherwise bear certain fees and expenses in connection with their investments in such portfolio investments. The compensation to be paid to the External Managers and their affiliates may include asset-based advisory and

administrative fees and/or performance-based allocations and incentive fees. Generally, the portfolio investments bear their own operating and investment related expenses, which are shared by the investors in such portfolio investments. The advisory fee payable to LCM and the compensation of the External Managers result in two levels of fees and greater expenses than would be associated with direct investment by a separate account. If a portfolio investment invests in pooled vehicles (e.g., money market funds for cash management purposes), the separate account will be exposed to an additional layer of fees associated with such vehicles. However, for certain separate accounts, fees payable to External Managers will be netted against the advisory Fee payable to LCM so that account holders pay one advisory fee to LCM.

### **Other Fees**

LCM and its affiliates may compensate third parties, including brokers, placement agents and others, in connection with the solicitation of prospective clients and investors. Such referral fees may be a percentage of such client's assets under management, advisory fees, or any other fee arrangement agreed to by LCM (or its affiliate) and such third party. To the extent applicable, such arrangements will conform to Rule 206(4)-3 under the Investment Advisers Act of 1940, as amended (the "Advisers Act"), and, as applicable, appropriate provisions and guidance under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The fees and expenses of any such third parties may be paid by the separate accounts, but will be reimbursed by LCM by offsetting its advisory fees.

Discretionary separate account clients may bear other fees and expenses, including custodian fees, and transaction costs, in addition to the investment advisory fees noted above. These separate account clients will also incur brokerage costs associated with transactions conducted for their accounts (please review Item 12 "Brokerage Practices" for further information). Please see Item 12 below for further discussion of brokerage fees and the factors that LCM considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

LCM and its affiliates may from time to time incur fees and expenses on behalf of clients for the benefit of clients, which fees and expenses will ultimately be expensed to clients. LCM will attempt to allocate such expenses on a basis that it considers fair and equitable over time.

From time-to-time LCM may retain an External Manager to provide investment research and analysis and/or discretionary management to clients (directly, or through investment funds, managed accounts or other structures) with respect to certain portions of client assets. Compensation (including, without limitation, advisory, and other fees, carried interest, profit participation and reimbursement of operating and other expenses) to External Managers that are not affiliated with LCM will be borne by clients, if applicable,

and LCM may not offset, or pay such External Managers, if applicable, LCM's advisory fees. However, LCM may offset the compensation it receives against compensation received by affiliated External Managers.

Each investor should review their respective Governing Documents for a fuller discussion and understanding of all the fees, expenses and other compensation LCM and other parties may obtain or receive from, or in connection with, the their separate account.

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

Certain of the investment strategies offered by LCM have similar investment objectives and are managed in a similar manner and therefore it is possible that LCM could engage in transactions in the same types of securities and instruments for various accounts, and that such transactions could affect the prices and availability of the securities and instruments in which an account invests, and could have an adverse impact on the account's performance. In certain circumstances, LCM may take a position on behalf of one account or strategy, including an account managed on behalf of an employee, including the Principal, that may be contrary to a position taken on behalf of another account or strategy. In certain circumstances, LCM may take a position on behalf of one account or strategy prior to taking the same or similar position for another account or strategy. This may be due to risk tolerance levels, position size, available cash levels or other considerations. For example, LCM may take an earlier position in one strategy prior to taking a position in the same security in another strategy. This may be due to risk tolerance levels of each respective strategy or investment objectives as determined by the portfolio manager in consideration of the Governing Documents. In addition, a portfolio manager may trade on behalf of an account managed on behalf of an employee, including the Principal, as well as client accounts and such trading may occur in the same securities on the same day. Also a portfolio manager may trade in the same security on behalf of an account managed on behalf of an employee, including the Principal, that a sub-adviser is trading for client accounts on the same day.

We provide each client with the investment products or services to which the client is entitled and do not improperly favor one client over another. This does not mean we make the same investments for all clients or offer the same products or terms to all clients. However, we otherwise treat our clients on an equal footing, except in those cases where the client agrees or understands that there will be a different approach. LCM does not favor the interest of larger or more lucrative clients over the interests of other clients. As noted above, LCM manages one or more separate accounts on behalf of its employees, including the Principal. LCM has adopted trader allocation procedures that are reasonably designed to assure all eligible LCM accounts participate in appropriate investment opportunities in an equitable fashion. One way LCM manages this potential conflicts is through our trade allocation policy and procedures. Generally, traders are allocated pro rata according to order size (see Item 12 – Brokerage Practices).

## **External Manager Compensation**

As noted above, the compensation to be paid to the External Managers and their affiliates may include asset-based advisory and administrative fees and/or performance based allocations and incentive fees. The compensation of the External Managers results in two levels of fees and greater expenses than would be associated with direct investment by a separate account. If a portfolio investment invests in pooled vehicles (*e.g.*, money market funds for cash management purposes), clients will be exposed to an additional layer of fees associated with such vehicles.

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

As described in Item 4, LCM furnishes discretionary investment advice to separate accounts in accordance with the Governing Documents. Investors in the separate accounts include high net worth individuals, accredited investors, and individual and family trusts. LCM also provides non-discretionary investment advisory services to the non-discretionary accounts which include registered investment advisers, corporations, wealth management platforms and other legal entities. Some of the discretionary separate accounts have established minimum investment amounts which are set forth in the Governing Documents and may be waived in accordance with the Governing Documents.

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

### **Methods of Analysis and Investment Strategies**

LCM utilizes a variety of methods and strategies to make investment decisions and recommendations. The methods of analysis include fundamental research, charting analysis and cyclical analysis as well as use of quantitative tools and investment approaches, or technical analytical tools and approaches. LCM may engage in global macro, long/short or short selling strategies. LCM may also use margin or other types of leverage to implement its trading strategies.

In selecting External Managers, LCM may consider, among other things, factors such as historical performance and/or recognizable prospects, an identifiable track record and a substantial personal investment in the investment program by the External Manager and/or its key personnel. LCM is not limited to selecting External Managers that have stand-alone track records and may allocate capital to External Managers that are in the start-up phase of their operations.

### **Risk of Loss**

General Economic and Market Conditions. The success of clients' activities will be affected by general economic and market conditions, such as interest rates, availability of



credit, credit defaults, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of the prices and the liquidity of clients' investments. Volatility or illiquidity could impair clients' profitability or result in losses. A client may maintain substantial trading positions that can be adversely affected by the level of volatility in the financial markets.

Short-Term Market Considerations. LCM's trading decisions may be made on the basis of short-term market considerations, and the portfolio turnover rate could result in significant trading related expenses.

**Company Risk.** The value of an individual security or particular type of security can be more volatile than the market as a whole and can perform differently from the market as a whole. This may result from a wide variety of factors that affect particular companies or industries, including changes in market demand for particular goods and services, increases in costs of supply, changes in management, increased competition, changes in regulatory environment and domestic or international political influence.

Prospective investors should carefully consider the risks involved in the investment programs offered by LCM, including, without limitation, those discussed below. Investing in the programs offered by LCM involves risk of loss that an investor should be prepared to bear. Additional or new risks not addressed below may affect a separate account. The following list of risk factors cannot be and is not intended to be exhaustive. Prospective investors should consult their own legal, tax and financial advisers about the risks of an investment in a program offered by LCM and review the risk factors outlined the relevant Governing Documents.

No guarantee or representation is made that a separate account's investment program, including, without limitation, a separate account's investment objective, diversification strategies or risk monitoring goals, will be successful. Investment results may vary substantially over time. No assurance can be made that profits will be achieved or that substantial or complete losses will not be incurred. Past investment results of LCM (or investments otherwise made by the investment professionals of LCM) are not necessarily indicative of their future performance.

#### Risks Relating to Clients Generally

Systemic Risk. Systemic risk is the risk of broad financial system stress or collapse triggered by the default of one or more financial institutions, which results in a series of defaults by other interdependent financial institutions. Financial intermediaries, such as clearing houses, banks, securities firms and exchanges with which clients interact are all subject to systemic risk. A systemic failure could have material adverse consequences on clients and on the markets for the securities in which a client seeks to invest.

## Risks Relating to Operations and Investment Activities

Quantitative Model Risk and Risk Management Viability. There can be no assurance that the models used by LCM will continue to be viable. The use of a model that is not viable or not completely viable could, at any time, have a material adverse effect on performance. There can be no assurance that clients will achieve their investment objectives or that the models (even if completely or partially viable) will continue to further or ultimately be capable of furthering clients' investment objectives.

Risks Relating to Non-Customized Model Portfolios Provided to Registered Advisers. LCM provides model portfolios of securities from time to time to registered investment advisers that use such models as part of the investment advisory services they provide to their clients. These model portfolios are not tailored to any individual client or customized based on the circumstances of any individual client. LCM is not responsible for determining whether the model portfolios are suitable for a particular client and are not liable for the investment performance of any client account utilizing these model portfolios. Clients of such registered investment advisers utilize LCM's model portfolios at their own risk.

Systems and Operational Risks. Clients depend on LCM to develop and implement appropriate systems for clients' activities. A client relies heavily and on a daily basis on financial, accounting and other data processing systems to execute, clear and settle transactions across numerous and diverse markets and to evaluate certain securities, to monitor its portfolio and capital, and to generate risk management and other reports that are critical to oversight of clients' activities. In addition, LCM relies on information systems to store sensitive information about itself, its affiliates, the separate accounts, and clients. Certain clients and LCM's activities will be dependent upon systems operated by third parties, including custodians, prime brokers, administrators, market counterparties and other service providers, and LCM may not be in a position to verify the risks or reliability of such third-party systems. Failures in the systems employed by LCM, custodians, prime brokers, administrators, counterparties, exchanges and similar clearance and settlement facilities and other parties could result in mistakes made in the confirmation or settlement of transactions, or in transactions not being properly booked, evaluated or accounted for. In addition, despite the security measures established by LCM and third parties to safeguard the information in these systems, such systems may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise these systems and result in the theft, loss or public dissemination of the information stored therein. Disruptions in client operations or breach of clients' information systems may cause clients to suffer, among other things, financial loss, the disruption of business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing failures or disruptions could have a material adverse effect on clients.

Volatility Risk. Clients' investment programs may involve the purchase and sale of relatively volatile securities and/or investments in volatile markets. Fluctuations or prolonged changes in the volatility of such securities and/or markets can adversely affect the value of investments held by clients.

Dependence on LCM and the Principal. The success of client accounts is dependent upon the ability of LCM and the Principal to manage client accounts and effectively implement its investment program. If a client were to incur substantial losses, such losses may impair LCM's ability to provide the same level of service to clients as it has in the past and continue operations. In addition, LCM is dependent on the services of certain key individuals, including the Principal. The loss of services of any one such individual could adversely affect LCM's ability to stay in business and manage the separate accounts and other clients.

#### Risks Relating to Specific Investments

Exchange Traded Funds. Exchange Traded Funds ("ETFs") are publicly traded unit investment trusts, open-end funds or depository receipts that seek to track the performance and dividend yield of specific indexes or companies in related industries. These indexes may be either broad-based, sector, or international. However, ETF shareholders are generally subject to the same risks as holders of the underlying securities they are designed to track. ETFs are also subject to certain additional risks, including, without limitation, the risk that their prices may not correlate perfectly with changes in the prices of the underlying securities they are designed to track, and the risk of trading in an ETF halting due to market conditions or other reasons, based on the policies of the exchange upon which the ETF trades. Generally, each shareholder of an ETF bears a pro rata portion of the client's expenses, including advisory fees. Accordingly, in addition to bearing their proportionate share of a separate account's expenses, investors may also indirectly bear similar expenses of an ETF.

Global Macro. The success of a separate account's global macro investment strategy depends upon LCM's ability to identify and exploit perceived fundamental, economic, financial and political imbalances that may exist in and between markets throughout the world. Identification and exploitation of such imbalances involves significant uncertainties. There can be no assurance that LCM will be able to locate investment opportunities or to exploit such imbalances. In the event that the theses underlying a separate account's positions fail to be borne out in developments expected by LCM, a separate account may incur losses, which could be substantial.

Portfolio Selection Risk. The value of your investment may decrease if LCM's judgment about the attractiveness, value of, or market trends affected a particular security, industry or sector, country or region, or about market movements, is incorrect.

Non-U.S. Investments. Investing in the securities of companies (and, from time to time, governments) outside of the United States involves certain considerations not usually associated with investing in securities of U.S. companies or the U.S. Government, including political and economic considerations, such as greater risks of expropriation, nationalization, confiscatory taxation, imposition of withholding or other taxes on interest, dividends, capital gains, other income or gross sale or disposition proceeds; limitations on the removal of assets and general social, political and economic instability; the relatively 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; the evolving and unsophisticated laws and regulations applicable to the securities and financial services industries of certain countries; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict an account's investment opportunities. In addition, accounting and financial reporting standards that prevail outside of the U.S. generally are not as high as U.S. standards and, consequently, less information is typically available concerning companies located outside of the U.S. than for those located in the U.S. As a result, a separate account 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 a separate account's rights in such markets. For example, securities traded on non-U.S. exchanges and the non-U.S. persons that trade these instruments are not subject to the jurisdiction of the SEC or the Commodity Futures Trading Commission (the "CFTC") or the securities and commodities laws and regulations of the U.S. Accordingly, the protections accorded to a separate account under such laws and regulations are unavailable for transactions on non-U.S. exchanges and with non-U.S. counterparties.

Currency Exchange Exposure. The separate accounts may invest in securities denominated in currencies other than the U.S. Dollar. The separate accounts, however, generally value their securities in U.S. Dollars. A separate account may or may not seek to hedge its non-U.S. currency exposure by entering into currency hedging transactions. There can be no guarantee that securities suitable for hedging currency or market shifts will be available at the time when a separate account wishes to use them, or that hedging techniques employed by a separate account will be effective. Furthermore, certain currency market risks may not be fully hedged or hedged at all. To the extent unhedged, the value of a separate account's positions denominated in currencies other than the U.S. Dollar will fluctuate with U.S. Dollar exchange rates as well as with the price changes of the investments in the various local markets and currencies.

Derivative Instruments Generally. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk. Derivatives traded over-the-counter may not have an authoritative source of valuation and the models used to value such derivatives are subject to change. Special risks may

apply in the future that cannot be determined at this time with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available. The regulatory and tax environment for derivative instruments in which a separate account may participate is evolving, and changes in the regulation or taxation of such securities may have a material adverse effect on a separate account.

Long/Short. The success of a separate account's long/short investment strategy depends upon LCM's ability to identify and purchase securities that are undervalued and identify and sell short securities that are overvalued. The identification of investment opportunities in the implementation of a separate account's long/short investment strategy is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. In the event that the perceived opportunities underlying a separate account's positions were to fail to converge toward, or were to diverge further from, values expected by LCM, the separate account may incur a loss. In the event of market disruptions, significant losses can be incurred which may force a separate account to close out one or more positions. Furthermore, the valuation models used to determine whether a position presents an attractive opportunity consistent with LCM's long/short strategies may become outdated and inaccurate as market conditions change.

Short Selling. The success of a separate account's short selling investment strategy depends upon LCM's ability to identify and sell short securities that are overvalued. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the separate account of buying those securities to cover the short position. There can be no assurance that a separate account will be able to maintain the ability to borrow securities sold short. In such cases, the separate account can be "bought in" (i.e., forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Short strategies can also be implemented synthetically through various instruments and be used with respect to indices or in the over-the-counter market and with respect to futures and other instruments. In some cases of synthetic short sales, there is no floating supply of an underlying instrument with which to cover or close out a short position and a separate account may be entirely dependent on the willingness of over-the-counter market makers to quote prices at which the synthetic short position may be unwound. There can be no assurance that such market makers will be willing to make such quotes. Short strategies can also be implemented on a leveraged basis. Lastly, even though a private separate account secures a "good borrow" of the security sold short at the time of execution, the lending institution may recall the lent security at any time, thereby forcing the private separate account to purchase the security at the then-prevailing market price, which may be higher than the price at which such security was originally sold short by the separate account.

Leverage and Borrowing. A separate account may utilize leverage with respect to its portfolio investments. The use of leverage will allow a separate account to make additional investments, thereby increasing its exposure to assets, such that its total assets may be greater than its capital. However, leverage will also magnify the volatility of changes in the value of the separate account's portfolio. The effect of the use of leverage by a separate account in a market that moves adversely to its investments could result in substantial losses to the separate account, which would be greater than if the separate account were not leveraged. The Incentive Allocation may encourage LCM to incur leverage in order to increase the amount of its compensation. A separate account may also borrow for cash management purposes, such as to satisfy withdrawal requests. The rates at and terms on which a separate account can borrow will affect its operating results.

The instruments and borrowings utilized by a separate account to leverage investments may be collateralized by all or a portion of the separate account's portfolio. Accordingly, a separate account may pledge its securities in order to borrow or otherwise obtain leverage for investment or other purposes. Should the securities pledged to brokers to secure a separate account's margin accounts decline in value, the separate account could be subject to a "margin call", pursuant to which the separate account must either deposit additional separate accounts or securities with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. The banks and dealers that provide financing to the separate accounts can apply essentially discretionary margin, "haircut", financing, and collateral valuation policies. Changes by counterparties in any of the foregoing may result in large margin calls, loss of financing and forced liquidations of positions at disadvantageous prices. Lenders that provide other types of asset-based or secured financing to a separate account may have similar rights. There can be no assurance that a separate account will be able to secure or maintain adequate financing.

Borrowings will be subject to interest, transaction and other costs, and other types of leverage also involve transaction and other costs. Any such costs may or may not be recovered by the return on a separate account's portfolio.

Hedging Transactions. A separate account may utilize securities for risk management purposes in order to: (i) protect against possible changes in the market value of the separate account's investment portfolio resulting from fluctuations in the markets and changes in interest rates; (ii) protect the separate account's unrealized gains in the value of its investment portfolio; (iii) facilitate the sale of any securities; (iv) enhance or preserve returns, spreads or gains on any security in the separate account's portfolio; (v) hedge against a directional trade; (vi) hedge the interest rate, credit or currency exchange rate on any of the separate account's securities; (vii) protect against any increase in the price of any securities the separate account anticipates purchasing at a later date; or (viii) act for any other reason that LCM deems appropriate. A separate

account will not be required to hedge any particular risk in connection with a particular transaction or its portfolio generally. LCM may be unable to anticipate the occurrence of a particular risk and, therefore, may be unable to attempt to hedge against it. While a separate account may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the separate account than if it had not engaged in any such hedging transaction. Moreover, the portfolio will always be exposed to certain risks that cannot be hedged.

Investments with External Managers. A separate account may invest in separate accounts managed by External Managers. Among the principal risks inherent in the separate account investing in such vehicles are the restrictions imposed on the asset allocation flexibility and risk control capability of LCM as a result of third-party management and/or limited liquidity of such Portfolio separate accounts. A separate account may be unable to redeem its capital from a separate account managed by an External Manager due to contractual or other restrictions for some months after LCM has determined that the strategy being implemented is no longer attractive. Further, participating in such structures may at times result in higher expense to a separate account. External Managers may trade wholly independently of one another and may at times hold economically offsetting positions from each other or a separate account itself, which would diminish the separate account's ability, considered as a whole, to achieve any gain or loss despite incurring expenses. Additionally, since a separate account typically does not have full transparency with respect to the trading activities of External Managers, it will be limited in its ability to hedge its exposure or to prevent concentration of its assets within the same issuer, asset or asset class, industry, section, strategy, currency, country or geographic region. Further, a separate account may be limited with respect to its ability to monitor External Managers, including their adherence to their respective trading and risk guidelines (if such guidelines exist), or with respect to potential or actual fraud. To the extent that the External Managers pursue investment strategies similar to those described herein, the risk factors discussed in this section will be applicable to the investments of the External Managers.

Counterparty Risk. The separate accounts expect to establish relationships to obtain financing, derivative intermediation and prime brokerage services that permit the separate accounts to trade in any variety of markets or asset classes over time. However, there can be no assurance that a separate account will be able to establish or maintain such relationships, or that such counterparties will fulfill their obligations. An inability to establish or maintain such relationships could limit the separate accounts' trading activities, create losses, preclude the separate accounts from engaging in certain transactions or prevent the Separate accounts from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships could have a significant impact on the separate accounts' business due to their reliance on such counterparties.

Factors Affecting Commodities Prices. The values of commodities which underlie the commodity futures contracts and other types of financial instruments a separate account may hold are generally affected by, among other factors, the cost of producing commodities, changes in consumer demand for commodities, the hedging and trading strategies of producers and consumers of commodities, speculative trading in commodities by commodity pools and other market participants, disruptions in commodity supply, weather and climate conditions, changes in interest rates, rates of inflation, currency devaluations and revaluations, embargoes, tariffs, regulatory developments, governmental, agricultural, trade, fiscal, monetary and exchange control programs and policies, political and other global events and global economic factors. In addition, governments from time to time intervene, directly and by regulation, in certain markets, often with the intent to influence prices directly. The effects of governmental intervention may be particularly significant at certain times in certain markets and this intervention may cause these markets to move rapidly. A separate account and LCM have no control over the factors that affect the price of commodities. Accordingly, the value of a separate account's investments could change substantially and in a rapid and unpredictable manner.

Debt Securities Generally. Debt securities of all types of issuers may have speculative characteristics, regardless of whether they are rated. The issuers of such instruments (including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal in accordance with the terms of the obligations. To the extent that a credit rating assigned to a security in a separate account's portfolio is downgraded, the market price and liquidity of such security may be adversely affected. Generally, when market interest rates rise, the market value of debt securities will fall, and vice versa. As interest rates decline, issuers of debt securities may prepay principal earlier than scheduled, forcing a separate account to reinvest in lower-yielding securities and potentially reducing the separate account's income. As interest rates increase, slower than expected principal payments may extend the average life of securities, potentially locking in a below-market interest rate and reducing the separate account's value. In typical market interest rate environments, the prices of longer-term debt securities generally fluctuate more than prices of shorter-term debt securities as interest rates change. These risks may be greater in the current market environment because currently certain interest rates are at or near historic lows. If the Federal Reserve continues to raise the federal separate accounts rate, there is a risk that interest rates will rise, which will likely drive down bond prices.

Bankruptcy Claims. Bankruptcy claims, which are amounts owed to creditors of companies that are debtors in pending bankruptcy cases, typically are illiquid and generally do not pay interest. The markets in U.S. bankruptcy claims are generally not regulated by U.S. federal securities laws or the SEC. Because bankruptcy claims are frequently unsecured, holders of such claims may have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding. In addition, the debt



of companies in financial reorganization may be adversely affected by an erosion of the issuer's fundamental values. Accordingly, there can be no guarantee that the debtor will ever be able to satisfy the obligation on a bankruptcy claim.

Closed-End Funds. Investments in closed-end funds are non-redeemable and are subject to the same risks as other publicly traded equity securities. There may be no public market for units of closed-end funds, which often trade at a discount from their net asset values.

Currencies. A principal risk in trading currencies is the rapid fluctuation in the market prices of currency contracts. Prices of currency contracts traded by a separate account are affected generally by relative interest rates, which in turn are influenced by a wide variety of complex and difficult to predict factors such as money supply and demand, balance of payments, inflation levels, fiscal policy, and political and economic events. In addition, governments from time to time intervene, directly and by regulation, in these markets, with the specific effect, or intention, of influencing prices which may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations.

Tax-Exempt Securities. A separate account may from time to time acquire direct interests in tax-exempt securities such as municipal securities. In addition, a separate account may indirectly acquire interests in municipal securities using a variety of instruments and structures. The market for tax-exempt securities, such as municipal securities, involves certain risks. The amount of public information available with respect to most tax-exempt securities is generally less than that for corporate equities or bonds, and the investment performance of a separate account may therefore be more dependent on the analytical abilities of LCM. The secondary market for tax-exempt securities also tends to be less liquid than the secondary market for many other securities, a circumstance which may adversely affect the price at which municipal securities and interests in municipal securities may be sold.

Sovereign Debt. Several factors may affect (i) the ability of a government, its agencies, instrumentalities or its central bank to make payments on the debt it has issued ("Sovereign Debt"), including securities that LCM believes are likely to be included in restructurings of the external debt obligations of the issuer in question, (ii) the market value of such debt and (iii) the inclusion of Sovereign Debt in future restructurings, including such issuer's (x) balance of trade and access to international financing, (y) cost of servicing such obligations, which may be affected by changes in international interest rates, and (z) level of international currency reserves, which may affect the amount of non-U.S. currency available for external debt payments. Significant ongoing uncertainties and exposure to adverse conditions may undermine the issuer's ability to make timely payment of interest and principal, and issuers may default on their Sovereign Debt.

Distressed Obligations. The obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems (including companies involved in bankruptcy or other reorganization and liquidation proceedings) are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the risk that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate, recharacterize debt as equity or disenfranchise particular claims. Such companies' obligations may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to a separate account's investments in any security. Obligations in which a separate account invests may be less than investment grade, and the level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that value of the assets collateralizing a separate account's investments will be sufficient or that prospects for a successful reorganization or similar action will become available. In any reorganization or liquidation proceeding relating to a company in which a separate account invests, the separate account may lose its entire investment, may be required to accept cash or securities with a value less than its original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the separate account's investments may not compensate investors adequately for the risks assumed. In addition, under certain circumstances, payments and distributions may be disgorged if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security the value of which will be less than the purchase price to a separate account of the security in respect to which such distribution was made.

Illiquid and Restricted Securities. Certain securities may be illiquid because, for example, they are subject to legal or other restrictions on transfer or there is no liquid market for such securities. Restricted securities cannot be sold to the public without registration under the Securities Act. Unless registered for sale, restricted securities can be sold only in privately negotiated transactions or pursuant to an exemption from registration (e.g., under Rule 144A of the Securities Act). Valuation of restricted and other illiquid securities

may be difficult or uncertain because there may be limited information available about the issuers of such securities. The market prices, if any, for such securities tend to be volatile and may not be readily ascertainable, and a separate account may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. A separate account may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. As a result, a separate account may be required to hold such securities despite adverse price movements. Even those markets which LCM expects to be liquid can experience periods, possibly extended periods, of illiquidity. Companies whose securities are not publicly traded may not be subject to public disclosure and other investor protection requirements applicable to publicly traded securities.

Preferred Stock. Investments in preferred stock involve risks related to priority in the event of bankruptcy, insolvency or liquidation of the issuing company and how dividends are declared. Preferred stock ranks junior to debt securities in an issuer's capital structure and, accordingly, is subordinate to all debt in bankruptcy. Preferred stock generally has a preference as to dividends. Such dividends are generally paid in cash (or additional shares of preferred stock) at a defined rate, but unlike interest payments on debt securities, preferred stock dividends are payable only if declared by the issuer's board of directors. Preferred stock may also be subject to optional or mandatory redemption provisions.

Real Estate-Related Securities. Securities issued by entities which invest in real estate, including "real estate investment trusts" ("REITs"), generally will be subject to the risks incident to the ownership and operation of commercial real estate and/or risks incident to the making of nonrecourse mortgage loans secured by real estate. Such risks include, without limitation, the risks associated with both the domestic and international general economic climates; local real estate conditions; risks due to dependence on cash flow; risks and operating problems arising out of the absence of certain construction materials; changes in supply of, or demand for, competing properties in an area (as a result, for instance, of over-building); the financial condition of tenants, buyers and sellers of properties; changes in availability of debt financing; energy and supply shortages; changes in the tax, real estate, environmental, and zoning laws and regulations; various uninsured or uninsurable risks; natural disasters; and the ability of a separate account or third-party borrowers to manage the real properties. In addition, a separate account may incur the burdens of ownership of real property, which include the paying of expenses and taxes, maintaining such property and any improvements thereon, and ultimately disposing of such property.

Structured Notes. Structured notes, variable rate mortgage-backed and asset-backed securities each have rates of interest that vary based on a designated floating rate formula or index. The value of these investments is closely tied to the absolute levels of such rates or indices, or the market's perception of anticipated changes in those rates or indices. The movements in specific indices or interest rates may be difficult or impossible to hedge.

#### **Item 9. Disciplinary Information**

None.

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

Neither LCM nor any affiliate is registered, nor do we have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer. Neither LCM nor any affiliate is registered, nor do we have any application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor or an associated person of the foregoing entities. LCM has filed for an exemption from registration as a commodity pool operator in accordance with CFTC Rule 4.13(a)(3).

We share common ownership with Lee Equity Partners, LLC ("LEP"), an SEC-registered investment adviser focused on private equity investments. LEP is principally owned by the Principal.

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

##### **Code of Ethics**

We have adopted a Code of Ethics (the "Code") which sets forth standards of business conduct we require of our supervised persons. The Code is intended to assist us and our supervised persons in complying with the requirements of Rule 204A-1 under the Advisers Act, as well as provisions of the federal securities laws pertaining to insider trading.

The Code contains Procedures and Policy Statement on Insider Trading to inform employees regarding what constitutes material, nonpublic information and the laws and requirements relating to insider trading and confidentiality and our policies in that area.

The Code also sets forth personal trading policies applicable to employees and certain of their family members and affiliates ("covered persons") that are designed to address actual or potential conflicts of interest (or appearances of conflicts) with our clients.

Covered persons may not trade for themselves or recommend trading in the securities of a public company while in possession of material, nonpublic information concerning such company, or disclose such information to any person not entitled to receive it. A covered person is required to inform our Chief Compliance Officer whenever he or she believes that he or she may have obtained material, nonpublic information regarding a public company.

Our Code requires that covered persons report personal brokerage transactions to the Chief Compliance Officer. Transactions in certain financial products, including certain mutual fund shares, U.S. Government securities, and certain money market instruments may be excluded from such reporting requirements.

Our Code also requires that covered persons seek pre-clearance with respect to investments in any private placement or initial public offering. These limitations and pre-clearance requirements may not apply to transactions in certain investments, including investments in accounts over which the covered person has no direct or indirect control.

A copy of our Code of Ethics will be provided to any client or prospective client upon request.

### **Conflicts of Interest**

Conflicts of interest may arise from the fact that LCM and its affiliates (including LEP) may provide investment management services to other accounts, and may invest in securities on their own behalf. There are instances where a discretionary separate account has an indirect ownership interest in investments managed by an External Manager, which is an affiliate.

Allocation of Investment Opportunities. LCM will manage or advise multiple clients that have investment objectives that are similar and are likely to make investments or redeem investments in the same securities or other instruments, sectors, or strategies. This may create potential conflicts, particularly in circumstances where the availability or liquidity of investment opportunities is limited. LCM seeks to allocate investment opportunities fairly and equitably across all clients to the extent such opportunities are appropriate for such clients. In addition, LCM has adopted allocation policies and procedures to address these issues. Our overall policy with respect to the allocation of investment opportunities is to treat all clients in a fair and reasonable manner and in accordance with contractual obligations and fiduciary duties. Generally, our policy is to allocate suitable opportunities among clients with similar strategies fairly and equitably, to the extent practicable, over a period of time. Such allocations may be made on a pro rata basis where such is in the best interests of clients. However, pro rata allocation may not always be feasible or in the best interests of clients, and we reserve the right to allocate on a non-pro rata basis. The policies are subject to continuous review, and LCM will issue new policies and

procedures and updates from time to time. Please note also that LCM management and the Chief Compliance Officer may from time to time vary and grant exceptions to provisions of the policies, and that the Chief Compliance Officer may, as appropriate, consult with others at LCM, including supervisors, concerning proposed activities.

The Principal will and senior management and other employees of LCM may choose to personally invest in securities in which, in certain cases, separate accounts, currently, or in the future, may also invest. In addition, other employees may personally invest securities in which, in certain cases, separate accounts, currently, or in the future, may also invest. In these instances, any transactions by the Principal or senior management or other employee of LCM will be in accordance with LCM's Code of Ethics and allocation policies and procedures.

Activities of Affiliates. As LCM and its affiliates share common ownership, certain employees of LCM may acquire confidential or material non-public information or be restricted from initiating transactions in certain securities as a result of his or her activities for an affiliate or from the receipt of confidential or material non-public information. LCM and its employees will not be free to act upon any such information and such information may serve to restrict any of our clients in their investment activities. Due to these restrictions, a client may not be able to initiate a transaction that it otherwise might have initiated and may not be able to sell a portfolio investment that it otherwise might have sold. In addition, LCM may decline to receive non-public information in order to avoid trading restrictions with regard to any account advised by LCM or its affiliates.

Even if a client, including a separate account, has investment objectives, programs or strategies that are similar to those of another separate account, including a separate account of the Principal, LCM may give advice or take action with respect to the investments held by, and transactions of, the client that may differ from the advice given or the timing or nature of any action taken with respect to the investments held by, and transactions of, a private fund or separate account for a variety of reasons, including, without limitation, differences between the investment strategy, financing terms, regulatory treatment and tax treatment of the other clients and a private fund. As a result, a separate account or other client may have substantially different portfolios and investment returns. Conflicts of interest may also arise when LCM makes decisions on behalf of a separate account with respect to matters where the interests of LCM or one or more clients differs from the interests of the separate account.

Activities of LCM Employees. LCM, its affiliates, and its employees may give advice or take action for their own accounts that may differ from, conflict with or be adverse to advice given or action taken for the separate accounts. These activities may adversely affect the prices and availability of other securities held by or potentially considered for purchase by the separate accounts.

LCM, its affiliates and employees will devote as much of their time to the activities of the separate accounts as they deem necessary and appropriate. LCM, its affiliates and employees will not be restricted from entering into other investment advisory relationships or from engaging in other business activities, even if such activities may be in competition with the separate accounts and/or may involve substantial time and resources of LCM, its affiliates or employees. These activities could be viewed as creating a conflict of interest in that the time and effort of LCM, its affiliates and employees will not be devoted exclusively to the business of the separate accounts but will be allocated between the business of the separate accounts and the other businesses. In an effort to minimize potential conflicts of interest, LCM's Code requires LCM's supervised persons to act in the best interests of its clients at all times.

From time to time, the Principal, senior management and key employees of LCM will serve as directors or advisory board members of certain companies or other entities, which may include portfolio companies of affiliates. In connection with such services, such persons may receive directors' fees or other similar compensation attributable to such persons' services which will not be shared with the separate accounts. One or more of our supervised persons may serve as a member, which may include chair of the board of directors or advisory board of a non-public entity not affiliated with the separate accounts or us and may receive compensation in connection with such personal service to such entities. In particular, Thomas H. Lee serves as a member of the board of directors of a private company for which he receives compensation.

Cross Transactions. LCM may effect cross transactions between clients, except as otherwise noted below. Cross transactions enable LCM to effect a trade between two accounts for the same security at a set price, thereby possibly avoiding an unfavorable price movement that may be created through entrance into the market and saving commission costs for both accounts. Cross transactions include rebalancing transactions that are undertaken so that, after withdrawals or contributions have occurred, the portfolio compositions of similarly managed accounts remain substantially similar.

LCM has a potentially conflicting division of loyalties and responsibilities regarding both parties to cross transactions. Cross transactions between accounts are not permitted if they would constitute trades for which LCM or its affiliates are compensated as a broker-dealer unless client consent has been obtained based upon written disclosure to the client of the capacity in which LCM or its affiliates will act. Any cross transactions will be effected in accordance with LCM's policies and procedures.

Principal Transactions. Generally, LCM does not purchase or sell any securities for its own account to or from those of a client. In the event that we would consider entering into a principal transaction, we would comply with the requirements of applicable law, including Section 206(3) of the Advisers Act.

Service Providers. The clients' service providers (including lenders, brokers, attorneys and investment banking firms) may be sources of investment opportunities or have other relationships with LCM and its affiliates. This may influence LCM in deciding whether to select such a service provider. Notwithstanding the foregoing, investment transactions for a separate account that require the use of a service provider will generally be allocated to service providers on the basis of best execution.

Differing Interests of Individual Investors. Separate accounts may have conflicting investment, tax, or other interests with respect to their investments. These conflicting interests may relate to or arise from, among other things, the nature of investments made by the separate accounts, the structuring of the acquisition of such investments, or the timing of disposition of investments. In such circumstances, LCM will prioritize the investment and other objectives of the separate account as a whole, and not the investment or other objectives of any investor individually.

## **Item 12. Brokerage Practices**

LCM selects broker-dealers based upon their ability to provide best execution for client accounts. LCM considers a number of factors in selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation. Such factors include net price, reputation, financial strength and stability, efficiency of execution, electronic trade entry and reporting, and error resolution. In selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation, LCM need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. While LCM may engage in transactions with broker-dealers on an "execution only" basis, our clients will generally be paying for research, brokerage or other services provided by a broker-dealer, which are included in the commission rate. LCM has adopted policies and procedures intended to seek best execution on an ongoing basis for securities transactions, based upon the aforementioned factors.

LCM has entered into, and may continue to enter into additional agreements, e.g., investment advisory services agreements with External Managers under which the investment adviser provides discretionary investment management and certain administrative services to certain clients. In accordance with such agreements, the External Manager is granted trading discretion, including broker selection, on behalf of the relevant accounts and has made contractual representations to LCM regarding its obligations to provide best execution for securities transactions, including any use of soft dollar arrangements. As part of its regular review of brokerage executions, LCM will review transaction-related information and related policies and procedures of any External Managers.



## Soft Dollar Practices

LCM receives certain research or other products or services other than execution from a broker-dealer and/or a third party in connection with client securities transactions. This is known as a “soft dollar” relationship. LCM will limit the use of “soft dollars” to obtain brokerage and research services that constitute brokerage and research services within the meaning of Section 28(e) of the Securities Exchange Act of 1934, as amended (“Section 28(e)"). The use of client brokerage commissions (or markups or markdowns) to obtain research and brokerage products and services raises conflicts of interest. For example, LCM will not have to produce or pay for the products and services itself. This creates an incentive for LCM to select a broker-dealer based on its interest in receiving those products and services, rather than on clients’ interest in receiving most favorable execution.

LCM may cause client accounts to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits (known as paying-up), resulting in higher transaction costs. Products and services obtained via soft dollar commissions will be used for the benefit of all clients. In some cases, there may not be a direct correlation between the use of commissions and the amount of products and services acquired and utilized for the benefit of each client account.

As a result of client brokerage commissions, LCM and/or its affiliates have acquired data services (including services providing real time exchange data, market data, company financial data and economic data), software used to transmit orders, research reports (including market research), certain financial publications, and services relating to execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between LCM and broker-dealers and other relevant parties such as custodians).

LCM may participate in “client commission arrangements” pursuant to which LCM may execute transactions through a broker-dealer and request that the broker-dealer allocate a portion of the commissions or commission credits to another firm that provides research and other products to LCM. LCM excludes from use under these arrangements those products and services that are not eligible under Section 28(e) and applicable regulatory interpretations. In some instances, LCM obtains a product or service that is used, in part, by LCM for Section 28(e) eligible purposes and, in part, for other purposes. In such instances, LCM will make a good faith effort to determine the relative proportion of the product or service used to assist LCM in carrying out its investment decision-making responsibilities and the relative proportion used for administrative or other purposes outside Section 28(e). The proportion of the product or service attributable to assisting LCM in carrying out its investment decision making responsibilities will be paid through brokerage commissions generated by client transactions and the proportion attributable to administrative or other purposes outside Section 28(e) will be paid for by LCM from its own resources. The determination of the appropriate allocation of “mixed use” products

and services creates a potential conflict of interest between LCM and clients. Investment transactions for clients and the use of such commissions by LCM may be outside the safe harbor provided by Section 28(e) and applicable regulatory interpretations for one or more of the following reasons: the type of investment, the market mechanism or the market intermediary compensation involved in the transaction or the types of services obtained with the commissions paid for the transaction. Even when investment transactions for clients are outside the Section 28(e) safe harbor, the commissions paid will be used for the acquisition of Section 28(e) types of research and brokerage.

Prior to entering into any formal soft dollar arrangement, approval must be obtained from the Chief Compliance Officer. Approval will be granted only if there is a determination that a research or brokerage service meets the applicable eligibility standards and will provide lawful and appropriate assistance in the investment decision-making process. LCM's Investment Committee, in consultation with portfolio managers, are responsible for making determinations regarding the soft dollar research and brokerage services that LCM intends to obtain during any period. The portfolio managers, in consultation with the Chief Compliance Officer, will determine that (i) commissions paid are reasonable in relation to the research and brokerage services received and (ii) trades made in connection with soft dollar arrangements receive best execution. In addition, the Chief Compliance Officer will determine that the receipt of any third-party research is consistent with LCM's soft dollar policies and procedures and will specifically approve (i) any request made by the executing brokers for agreements related to soft dollar payments and (ii) any arrangements involving the receipt of services through introducing and clearing brokers. The Investment Committee periodically reviews soft dollar arrangements to consider whether on-going arrangements are consistent with LCM's obligation to obtain best execution. The Chief Compliance Officer periodically reviews soft dollar arrangements to determine that they are consistent with LCM's policies and procedures.

### **Brokerage for Client Referrals**

From time to time, LCM may participate in capital introduction programs arranged by broker-dealers, including firms that serve as prime brokers to a client or that recommend one or separate accounts as an investment to prospective Investors. LCM may place portfolio transactions with firms who have made such recommendations or provided capital introduction opportunities, if LCM determines that it is otherwise consistent with seeking best execution. In no event will LCM select a broker-dealer as a means of remuneration for recommending LCM or other product managed by LCM (or an affiliate) or affording LCM with the opportunity to participate in capital introduction programs. As such, client or investor referrals are not considered when making brokerage decisions.

## **Order Aggregation**

LCM and its affiliates often purchase or sell the same security for client accounts contemporaneously or near the same time and using the same executing broker. LCM may, where possible, aggregate orders for the purchase or sale of the same security submitted at or near the same time for execution using the same executing broker for individual accounts. However, LCM may also place trades on an individual basis and may not attempt to group orders for multiple accounts for the same security and type of trade in a single, combined order. LCM has sole discretion to determine when orders for the purchase or sale of the same security submitted at or near the same time for execution will be aggregated. Where orders are aggregated, such aggregation may enable LCM to obtain for clients a more favorable price or a better commission rate based upon the volume of a particular transaction. In cases where trading or investment restrictions are placed on an account, LCM may be precluded from aggregating that account's transaction with others. In such a case, the account may pay a higher commission rate and/or receive less favorable prices than accounts that are able to participate in an aggregated order.

When an aggregated order is completely filled, LCM allocates the securities purchased or proceeds of sale pro rata among the participating accounts, based on the purchase or sale order. The pro rata calculation will be affected by the relative size of the accounts. Adjustments or changes may be made under certain circumstances, such as to avoid odd lots or excessively small allocations. If the order at a particular broker is filled at several different prices, through multiple trades, generally all such participating accounts will receive the average price and pay the average commission, subject to odd lots, rounding, and market practice. If an aggregated order is only partially filled, LCM's procedures provide that the securities or proceeds are to be allocated in a manner deemed fair and equitable to each account participating in the transaction. Depending on the investment strategy pursued and the type of security, this may result in a pro rata allocation to all participating accounts. In addition there may be a desire to employ more or less leverage for one or more of the accounts so this may also affect trade allocation. Partially filled orders will not automatically carry over to the next trading day for completion. The completion of such trade will be a portfolio management decision. LCM, its affiliates and their covered persons may also participate in an aggregated order.

LCM currently places trades on an individual basis and does not attempt to group orders for multiple accounts for the same security and type of trade in a single, combined order. Because in these situations LCM does not engage in the practice of aggregating orders, accounts may not receive the potential benefits of aggregation, such as lower commission rates and uniform pricing. As a result, an account may pay a higher commission rate and receive less favourable prices than if LCM aggregated orders.

**Item 13. Review of Accounts**

Client portfolios are regularly reviewed by LCM's investment team to assure overall compliance with stated investment guidelines and restrictions, as set forth within the Governing Documents. The Principal has ultimate responsibility for all investment decisions.

The terms for providing account information and reports to other LCM clients are specified in the applicable client's Governing Documents.

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

LCM receives certain research or other products or services other than execution from broker-dealers and/or third parties through "soft dollar" arrangements. These "soft dollar" arrangements create an incentive for LCM to select or recommend broker-dealers based on LCM's interest in receiving the research or other products or services and may result in the selection of a broker-dealer on the basis of considerations that are not limited to the lowest commission rates and may result in higher transaction costs than would otherwise be obtainable by LCM on behalf of its clients. Please see Item 12 for further information on LCM's "soft dollar" practices.

LCM and its affiliates may compensate third parties, including brokers, placement agents and others, in connection with the solicitation of prospective clients and investors in a client. Such referral fees may be a percentage of such client's assets under management, advisory fee compensation earned by LCM (or its affiliates), or any other fee arrangement agreed to by LCM (or its affiliate) and such third party. The fees and expenses of any such third parties may be paid by the separate accounts, but will be reimbursed by LCM by offsetting its advisory fees.

At the current time, LCM has entered into three solicitation agreements in accordance with Rule 206(4)-3 under the Advisers Act under which it compensates such third parties.

**Item 15. Custody**

LCM does not as a general matter act as a custodian for client funds or securities; it does not hold clients monies and/or securities. Clients' funds and securities are held by a qualified custodian. Further, as a general matter, LCM does not deduct advisory fees or other expenses directly from a client's account.

To the extent that LCM does not have custody of a client's assets, the applicable custodian will prepare and distribute to such client quarterly, or more frequent, account

statements, which should be reviewed carefully by the client. Copies of client account statements are available upon request. As noted in Item 13 above, the terms for providing account information and reports to other LCM clients are specified in the applicable client's contractual documents.

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

For the separate accounts, LCM is granted discretionary authority over its clients based on contractual authority contained in an applicable limited partnership agreements, investment management agreement or other advisory agreement. Generally, each client's investment mandate and limitations on LCM's discretionary authority is described in the applicable client's Governing Documents.

LCM does not have investment discretion over non-discretionary accounts.

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

Where LCM has discretionary authority, LCM has adopted proxy voting policies and procedures in accordance with Rule 206(4)-6 under the Advisers Act. The policies address a broad range of issues and are believed to be consistent with LCM's fiduciary obligations in seeking to maximize rates of return. Clients generally have no right to direct LCM's proxy votes. Under certain circumstances, when it is believed to be in the best interest of clients, LCM may vote in a manner that is contrary to its proxy voting policies or may abstain from voting. In connection with the voting of a proxy, LCM's policies generally require identification of potential or actual conflicts of interest so that they may be appropriately addressed. In addition, LCM may engage a third party proxy voting service to vote proxies on behalf of clients and may, if appropriate, generally adopt such third party's proxy voting policies and guidelines; any cost of such may be borne by such clients, as applicable.

For accounts that are managed by an External Manager, the External Manager is generally responsible for proxy voting. LCM will review the proxy voting policies and procedures and related information of any such External Managers.

A client may obtain a copy of LCM's proxy policies, as well as the manner in which proxy votes have been cast on behalf of such client during the prior annual period with respect to portfolio securities held by such client, by making a request in writing to the Chief Compliance Officer at Lee Capital Management LP, 767 Fifth Avenue, 6<sup>th</sup> Floor, New York, NY 10153.

**Item 18. Financial Information**

Not applicable.

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

Not applicable.