

# **PDT PARTNERS**

**Form ADV Part 2A**

**Firm Brochure**

**PDT Partners, LLC**

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This brochure provides information about the qualifications and business practices of PDT Partners, LLC. If you have any questions about the contents of this brochure, please contact us at (212) 621-0400. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

PDT Partners, LLC is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training.

Additional information about PDT Partners, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **ITEM 2 - MATERIAL CHANGES**

This annual update to our Brochure amends the Brochure dated March 29, 2019.

This Brochure has been updated to reflect that Morgan Stanley no longer holds special non-voting membership interests in PDT (see Item 4) and that we are now registered with the Kanto Local Finance Bureau in Japan as a “high speed trade operator” (see Item 10). This Brochure has also been updated to better reflect certain conflicts of interest (see Item 6 and Item 10) and certain risks associated with our investment strategies (see Item 8).

We do not consider any other changes from our last annual update of this Brochure material, but investors are encouraged to review this updated Brochure in its entirety.

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#### ITEM 4 - ADVISORY BUSINESS

PDT Partners, LLC is a Delaware limited liability company that was formed in September 2010 and commenced its investment advisory activities on July 1, 2012. PDT Partners, LLC, together with its affiliates, (collectively, “PDT”, “our”, or “we”) is the successor to the Process Driven Trading group of Morgan Stanley (the “PDT Group”), which was founded in 1993 as a proprietary quantitative trading group within Morgan Stanley & Co. LLC (together with its affiliates, “Morgan Stanley”).

The principal owner of PDT Partners, LLC is an entity with a number of equity partners (PDT Capital Group, L.P.) that is ultimately controlled by Peter Muller, our Chief Executive Officer. Morgan Stanley held special, non-voting membership interests in PDT Partners, LLC, but these interests terminated at the end of 2019. Even when Morgan Stanley did hold these interests, it was *not* an “advisory affiliate” or “related person” of PDT for purposes of the Investment Advisers Act of 1940 (the “Advisers Act”).

PDT develops and deploys quantitative strategies to trade liquid assets globally. We provide investment advisory services to a group of pooled investment vehicles (the “Funds”) on a discretionary basis using quantitative investment strategies. Each Fund generally comprises a number of related and/or unrelated entities, for example, in a “master-feeder” structure or a “parallel fund” arrangement. Using quantitative models developed by PDT, including models that were developed from those originally created by the PDT Group, we trade a broad range of liquid, publicly traded U.S. and non-U.S. securities and other instruments, including equities, futures contracts, foreign exchange, and derivatives thereon. In limited circumstances, we will invest in private securities or other instruments.

Each Fund is managed according to the investment objectives and policies set forth in its offering materials and other governing documents. PDT does not generally tailor the Funds’ investment programs for any particular Fund investor, but has in some cases accommodated investor requests with respect to how a particular portfolio is managed or restrictions on instruments that are permitted to be acquired (see Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss – Material Risks – *Exercising Discretion in Non-Model Driven Trading Decisions*).

As of December 31, 2019, PDT managed, on a discretionary basis, approximately \$11,548,900,000 in regulatory assets under management. We do not manage any assets on a non-discretionary basis.

## **ITEM 5 - FEES AND COMPENSATION**

### **Fee Schedules; Calculation and Deduction of Fees**

PDT does not have a general fee schedule. We generally receive a management fee based on the assets under management of each Fund, up to 3.5% per annum, and performance-based compensation (which is generally allocated to an affiliated entity), ranging from 20% to 50% and subject to a high-watermark. Such performance-based compensation is based on absolute performance (in some cases, subject to a hurdle rate) or performance relative to a benchmark (i.e., performance-based compensation is due even when the Fund experiences negative overall performance). Information relating to the actual fees charged to any Fund is set forth in the offering materials for that Fund. Management fees are generally paid monthly in advance and performance-based compensation is generally paid or allocated annually or semi-annually. PDT deducts fees directly from the assets of the Funds.

Partners, employees, and affiliates of PDT, as well as investors in the Funds who have negotiated separate written agreements with PDT or the Funds, are subject to different fees and other terms than those described in the Funds' offering materials, and we may waive, reduce, or modify fees or agree to other terms with respect to any investor in a Fund in the future.

### **Other Fees and Expenses**

In addition to the management fees and performance-based compensation described above, the Funds incur other expenses. Other expenses borne by some or all of the Funds, whether incurred directly or indirectly, include, but are not limited to: offering and organizational expenses (including costs relating to the preparation and modification of governing documents, counterparty agreements, offering memoranda, marketing materials, questionnaires, subscription agreements, side letters or other agreements entered into with any investor, and payments made for historical market data); third-party fund administration expenses; external accounting, auditing, and tax preparation, filing, and consulting fees; fees of professional consultants and experts relating to investments; fees of external legal or regulatory service providers (including fees relating to statutory representation, fees incurred in connection with obtaining trading and other advice, and fees associated with (i) updating the Funds' disclosure documents, (ii) negotiating counterparty agreements, (iii) obtaining marketing advice, and (iv) negotiating side letters); brokerage, clearing, and settlement fees (see Item 12 – Brokerage Practices); taxes and regulatory fees; custodial fees; market data and other data costs (whether or not the data is used and whether the data is used for trading, research, or other purposes); costs attributable to hardware used in support of production trading; costs attributable to technology used for processing market data and other data (including software and hardware (e.g., circuits) used for collecting, distributing, and storing such data); costs related to co-located data centers (including fees for the provision of power, electricity, racks, circuits, servers (both production and non-production), and technology services, including installation costs and project management fees); technology costs (including hardware costs and third-party technology service costs) associated with connecting to trading venues, trading counterparties, prime brokers, and similar service providers; expenses of preparing and distributing reports, financial statements, and documents to investors and prospective investors; certain insurance premiums covering the Funds, PDT, its affiliates, and/or their employees, officers, directors, principals, and partners with regard to losses, claims, damages, liabilities, and expenses; fees and expenses of a board of directors and/or any external advisory board; expenses relating to redemptions or transfers; interest and financing expenses; expenses relating to short sales; expenses related to making corporate, tax, or regulatory filings, including filings made by PDT with respect to investments made by the Funds; proxy service provider fees (if such services are used); fees (including, potentially, contingency fees) paid to third-party service providers to file class-action settlement claims (if such services are used); costs of investor meetings; costs and expenses related to the reorganization, dissolution, winding-up, or termination of a Fund; costs and expenses of acquiring and

maintaining exchange or other memberships and/or licenses that are directly or indirectly assets of a Fund; and costs and expenses associated with litigation, arbitration, regulatory examinations, governmental investigations, and other extraordinary expenses. Any sales, use, value-added, and other taxes, levies, and fees associated with PDT's purchase and/or use of the particular products or services described above will also be borne by the Funds.

Certain of these expenses are subject to an expense cap. Each Fund has different policies with respect to which expenses are borne by such Fund and the level of the expense cap (if any), and certain investors in the PDT Partners Fund family have negotiated expense caps that are lower than the expense caps specified in the applicable Fund's offering materials. None of the fees and expenses described in this section reduce the management fee or performance-based compensation described above.

Many of the expenses are paid by PDT or its agents on behalf of the Funds, with such parties subsequently being reimbursed by the Funds. In addition, many of the expenses are incurred for the benefit of multiple Funds. Pursuant to its expense allocation policies and procedures, PDT generally allocates such shared expenses among the Funds based on the relative assets under management (or a similar measure), relative investment portfolio gross market value, or relative global trading volume of the relevant Funds, but at any time may choose another methodology we deem appropriate. While some expenses may relate more to one Fund than another, for administrative ease, PDT generally applies a single cost allocation methodology to all similar types of expenses (for example, allocating all exchange data costs among Funds based on relative global trading volume, as opposed to allocating a particular exchange data cost only to a Fund that consumes that particular data). Moreover, from time to time, we are likely to change a methodology we use for allocating expenses either because we deem a different methodology more appropriate or we deem a methodology too operationally burdensome to implement. Furthermore, PDT may decide not to allocate certain permissible expenses to the Funds (in their entirety, for a particular time period, for a particular region, or otherwise), but any such decision may be reversed at a later point in time. Expense allocation decisions involve many subjective determinations, which involve conflicts of interest, as described in more detail in Item 6 – Performance-Based Fees and Side-By-Side Management. With respect to any expense allocation decision, it is likely that there are several other reasonable (and potentially more precise) methodologies that we could have chosen instead. An allocation decision by PDT may result in a Fund bearing more or less in expenses than it would have had a different methodology been applied.

In addition to the fees and expenses enumerated above, when we invest a portion of a Fund's assets in investment vehicles managed by third parties (e.g., money market funds or exchange-traded funds), the Fund bears the fees and expenses charged by such investment vehicles and/or third party managers.

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

PDT receives performance-based compensation with respect to the Funds we manage which creates an incentive for us to make riskier or more speculative investments than would be the case in the absence of such performance-based compensation arrangements. One of the Funds only pays performance-based compensation (i.e., it does not pay any asset-based fees), which exacerbates this conflict. On the other hand, in certain circumstances, Funds that pay performance-based compensation relative to a benchmark have incentives to take fewer risks than would be the case in the absence of such performance-based compensation arrangements. We have established a Risk & Capital Committee, comprised of certain PDT partners and employees, which is responsible for overseeing the allocation of the capital and risk of the Funds.

As previously noted, we simultaneously manage multiple Funds, some of which employ trading strategies directly (the “Trading Funds”) and others of which allocate capital to the Trading Funds (the “Allocating Funds”). Certain of the Trading Funds trade separate instances of the same strategy (the “Mosaic Trading Funds”). The Funds do not have the same fees and have different levels of internal capital.

Management of multiple Funds at the same time with different fees and differing levels of internal capital gives rise to certain conflicts of interest, as described in more detail below and in the Funds’ offering materials, which we strongly encourage investors to review carefully. To help address these conflicts, we have established a Conflicts Committee, comprised of certain PDT partners and employees, which is responsible for reviewing and analyzing potential conflicts of interest. We have also adopted trade allocation and other policies and procedures that we believe are reasonably designed to address conflicts of interest, which are described in greater detail in the offering materials of the relevant Funds.

### *Conflicts Relating to Allocation of Time, Resources, and Investment Opportunities*

Because the PDT Partners Fund family has significantly higher management fees and performance-based compensation than other Funds and because our partners and employees have significantly more capital invested (both on an absolute dollar and percentage basis) in the PDT Partners Fund family than in other Funds, we have an incentive to favor (and do in fact favor) the PDT Partners Fund family over other Funds, including in the allocation of management time, resources, and investment opportunities (for example, a substantial number of our partners and employees are engaged in activities for the PDT Partners Fund family rather than in activities that could benefit other Funds).

The PDT Partners Fund family utilizes shorter-term signals that are not made available to other Trading Funds because the signals are believed to be capacity constrained, and their capacity has been reserved for the PDT Partners Fund family. Over time, historical data has shown that strategies that use shorter-term signals tend to produce portfolios with higher Sharpe ratios and higher gross returns than those that utilize longer-term signals. Consistent with the foregoing, ***the PDT Partners Fund family has experienced, and is expected to continue to experience, higher Sharpe ratios and higher gross returns than the other Funds.***

The PDT Partners Fund family also has priority with respect to new strategies, methods, signals, and other opportunities (including order working opportunities). Even where we ultimately determine to use a new strategy, method, or signal for the benefit of other Trading Funds, we are likely to first use the strategy, method, or signals for the benefit of the PDT Partners Fund family, as we generally test new strategies, methods, and signals in the PDT Partners Fund family. From time to time, we permit the Mosaic Trading Funds to use a trade execution strategy, method, or signal generally reserved for the PDT Partners Fund family on a temporary and/or limited basis (generally in order to minimize the estimated potential impact on the PDT Partners Fund family). If we ultimately determine that sharing such trade

execution strategy, method, or signal is detrimental to the PDT Partners Fund family, we will likely discontinue using such trade execution strategy, method, or signal for the benefit of the Mosaic Trading Funds, even if such discontinuance is expected to have a material adverse effect on the Mosaic Trading Funds. Moreover, from time to time, we share a strategy, method, or signal between the PDT Partners Fund family and the Mosaic Trading Funds even if we estimate that doing so will increase the overall impact of our Funds on one another (e.g., if we expect that the shared strategy, signal, or method would be additive to both Funds notwithstanding the estimated increase in impact costs). Note, it is extremely difficult to estimate impact costs and there is no industry standard for such measures; therefore, any decision we make based on our estimate of impact costs (which may be model-based or intuitive) is subject to significant risk of error. As a result, any such decision could prove to be wrong in hindsight, and our decision to share or to not share strategies, signals, or methods among Funds could have a material adverse effect for one or more Funds (for a discussion of how the Funds impact one another, see *Conflicts Relating to Trading* below).

The Allocating Funds generally have significantly less capital allocated to the PDT Partners Fund family than other Trading Funds and therefore face similar conflicts to those faced by the other Trading Funds. In addition, partners and employees of PDT generally invest in only one of the Mosaic Trading Funds and not in any of the others. Another of the Mosaic Trading Funds has higher performance-based compensation and trades using higher leverage than the others. As a result, we face conflicts of interest in the allocation of management time, resources, and investment opportunities even in the management of Mosaic Trading Funds.

#### *Conflicts Relating to Trading*

As described in more detail in Item 12 – Brokerage Practices, PDT’s policy is to generally work orders on behalf of each Fund independently or, in the case of equity orders by Mosaic Trading Funds, separately but in a coordinated fashion (i.e., we do not aggregate trades even where one Trading Fund proposes to trade the same instrument in the same direction at approximately the same time as another Trading Fund). When one Trading Fund purchases (or sells) a security or other instrument before another Trading Fund’s buy (or sell) order is filled, such purchase (or sale) puts upward (or downward) pressure on the price of the security or other instrument, so that the second Trading Fund has its order filled at a less favorable price than it would have in the absence of the trading by the first Trading Fund. It is likely that working orders independently causes the Trading Funds to have a greater impact on each other than they would have if their trading were aggregated. Moreover, from time to time, one or more Trading Funds seeks to trade an instrument via a swap at the same time another Fund seeks to trade the same instrument directly (in the cash markets). In such instances, due to increased latency and other reasons described in more detail in Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss – Material Risks – *Swap Agreements*, the reference price for the swap will, on occasion, be less favorable than the price received on the cash order.

From time to time, particularly in those markets where the PDT Partners Fund family trades on a lower latency infrastructure than the Mosaic Trading Funds, the PDT Partners Fund family will trade ahead of the Mosaic Trading Funds. This is likely to result in the Mosaic Trading Funds having their orders filled at less favorable prices than they would have in the absence of the trading by the PDT Partners Fund family.

Furthermore, trading by certain Trading Funds is correlated (and, in the case of Mosaic Trading Funds, highly correlated) with trading by other Trading Funds. As a result, we believe that the Trading Funds negatively impact each other’s performance. In the case of highly correlated Trading Funds, we believe the impact to be material. If the correlation among Trading Funds increases (which happens from time to time for a variety of reasons, including, as noted above, our decisions to share strategies, signals, or



methods among Trading Funds) and/or the amount of capital invested in correlated Trading Funds increases, the negative impact of the Trading Funds on each other will increase.

In addition, PDT generally does not purchase (or sell) the same securities at the same time, or in the same proportionate amounts, for all Trading Funds (even all Mosaic Trading Funds). Often, the PDT Partners Fund family has a different view from the other Trading Funds as to whether to buy or sell a particular security at a particular time. From time to time, Mosaic Trading Funds even have opposing views as to whether to buy or sell a particular security at a particular time. As a result, one Trading Fund may experience a loss on a security while another Trading Fund experiences a gain on the same security.

PDT must manage the supply of shares available for borrowing by the Trading Funds with short positions and/or PDT's remaining position or risk limit capacity across multiple Trading Funds (including the Mosaic Trading Funds). In general, PDT has separate (not shared) pools of locates for different strategies. Trading using a shared locate pool can be advantageous in that it reduces instances where one Fund is blocked from trading because it does not have access to a locate that is available, but not being used, by another Fund. Where multiple Funds trade using the same strategy (i.e., the Mosaic Trading Funds), PDT uses a shared locate pool and generally allocates locates on a first-come, first-served basis, which can be detrimental to a Fund that trades after another during periods when locates are scarce.

As described in more detail in Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss (Material Risks – *Exercising Discretion in Non-Model Driven Trading Decisions*), from time to time, PDT executes trades (or restricts trading) on behalf of the Funds or trades in particular form (e.g., cash or swap) or with a particular counterparty for reasons not directly related to its quantitative models. PDT is conflicted in making tax-related interventions or decisions, since a majority of PDT partners and employees are U.S. persons and therefore benefit from interventions or decisions that have tax benefits for U.S. taxable investors or PDT and its affiliates. See also Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss (Material Risks – *Differing Tax Positions*). PDT is also conflicted in deciding to address specific investor environmental, social, and governance (“ESG”) or other concerns, since such actions allow PDT to increase the fees it receives from the Funds (e.g., by increasing the Funds’ assets under management).

#### *Conflicts Relating to Capacity Decisions*

As described in more detail in Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss (Material Risks – *Limited Capacity; Mandatory Redemptions*), PDT periodically reviews and assesses the amount of capital that it believes can be allocated to a particular strategy. The amount of third-party capital invested in our Funds, particularly the PDT Partners Fund family, is constrained by the limited capacity of such Funds and the continued and more rapid growth of internal capital in our Funds, which results in PDT lowering the amount of third party capital we are willing to accept and/or increasing the amount of third party capital we elect to return to investors. PDT is conflicted in making decisions relating to capacity and in determining whether (and how much) external capital to return to investors (and therefore how much internal capital may remain invested in the Funds). PDT is not obligated to allocate capacity pro rata and generally makes such decisions based on its own interests.

#### *Conflicts Relating to Expense Allocation*

As described in Item 5 – Fees and Compensation, certain expenses are incurred for the benefit of multiple Funds and therefore deemed “shared” expenses. While PDT seeks to allocate these shared expenses among Funds in a manner that is fair and reasonable over time, PDT faces conflicts of interest in making these allocations for a variety of reasons, including because more expenses are permitted to be charged to the PDT Partners Fund family than to other Funds, the PDT Partners Fund family is subject to higher

management fees and performance-based compensation than the other Funds, and PDT and our partners and employees have substantially more capital invested in the PDT Partners Fund family than in the other Funds.

*Conflicts Relating to Selection of Prime Brokers and Other Service Providers*

Many service providers determine what fees to charge the Funds based on the overall level of business that PDT directs to them and the profitability of that business to such service provider. As a result, we tend to concentrate business with certain service providers in order to obtain more favorable fees and better service for all Funds we manage. While we generally believe concentration is in the best interests of all the Funds we manage, there will be certain circumstances where it is not in the best interest of a particular Fund or Funds. For certain additional conflicts related to our selection of broker-dealers see Item 11 – Code of Ethics; Participation or Interest in Client Transactions; and Personal Trading.

## **ITEM 7 - TYPES OF CLIENTS**

Our only clients are the Funds, which are private pooled investment vehicles. As described above, certain of our Funds are Trading Funds and others are Allocating Funds.

Investors in our Funds are generally required to make a minimum initial investment of \$5,000,000 (though we often waive minimum investment requirements). Fund investors are also generally required to be both “accredited investors” and “qualified purchasers” or “knowledgeable employees” and meet other investor qualification criteria required by applicable securities and commodities laws and regulations.

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

### Methods of Analysis and Investment Strategies

PDT uses a quantitative investment approach. Our researchers, many of whom hold advanced degrees in mathematics and/or science, seek to identify indicators with predictive value, using mathematical techniques. The indicators are primarily technical (e.g., price or volume) or fundamental (information relating to companies, industries, or markets) in nature. The research results are incorporated into proprietary models that analyze large amounts of real-time and historical data to generate buy or sell orders in equities, futures contracts, foreign exchange, and derivatives thereon.

PDT's investment strategies vary by assets traded, forecasting technique, predictive horizon, risk profile, and other characteristics. Some of our strategies aim to be market neutral while others take directional market exposure, including long-biased market exposure. In addition, certain strategies are tailored for particular types of investors (e.g., U.S. taxpayers). All of our quantitative strategies are designed to systematically identify, and take advantage of, pricing anomalies and discrepancies in various related and unrelated securities and financial instruments.

The orders generated by PDT's investment strategies are primarily executed through our proprietary trading algorithms, though we also use third party broker algorithms and trade some orders manually. PDT's trading algorithms seek to optimize performance by managing market impact and by responding to changing market conditions. For certain types of trading, we almost exclusively trade using third party broker algorithms (i.e., not using PDT's trading algorithms).

We monitor the strategies we trade on behalf of the Funds throughout the day and intervene from time to time to reduce perceived risks (e.g., by hedging certain exposures, not trading particular securities or instruments, or turning off or adjusting the trading of a model). On occasion, we also effect opportunistic trades on behalf of the Funds that are not the result of any particular quantitative model.

### Material Risks

The following is a summary of material risks for PDT's investment strategies and methods of analysis. This summary does not describe every risk, and not all of the risks described are equally relevant for each Fund. ***Investors should understand that all of PDT's investment strategies involve substantial risk of loss, including the potential loss of their entire investment.*** No guarantee or representation is made that a Fund will have successful performance or achieve its investment objective. Fund investors should carefully review the offering materials of the relevant Fund for additional information on the risks associated with an investment in such Fund and be prepared to bear any and all such risks, including the possibility of a total loss of their investments in such Fund.

#### *Quantitative Strategies; Model Risk*

PDT's research and modeling process is extremely complex. While PDT utilizes back-testing and other statistical tests to evaluate research results, such tests do not insulate PDT from all design and conceptual flaws. The complexity of the components of PDT's strategies, and the interactions among such components, often makes it difficult or impossible to detect the source of any weakness or failure in such strategies before losses (including material losses) are incurred. Fund investors should not expect to be made aware of any weaknesses or errors discovered by PDT (regardless of whether or not such weaknesses or errors are corrected by PDT).

Even if all of the assumptions underlying the models used by PDT are correct, prices will often not move as the models predict. The models used by PDT use historical data to make future predictions about the securities and other instruments in their respective portfolios, and the actual performance of those securities and other instruments rarely exactly matches the model's predictions. The risk of divergence between actual and predicted performance is greatest when PDT launches models in markets where PDT has not traded before or in markets that have undergone substantial market structure changes in the recent past. Even markets that PDT has traded for an extended period of time and that are relatively stable act in unpredictable ways. The models utilized by PDT are not able to take into account all of the complexities of the financial markets, including events or circumstances that are not readily foreseeable, such as natural disasters, accounting fraud, litigation, or regulatory developments. In unforeseen or low-probability scenarios (e.g., the COVID-19 pandemic), and when deployed in markets where PDT does not fully understand all the trading nuances (e.g., markets where PDT has not previously traded), predictive models are more likely to produce unexpected results. Investment decisions, including hedging decisions, made on information that the models fail to understand completely have in the past and could in the future have a (potentially material) adverse impact on the Funds. As a result, PDT's models have in the past and may in the future perform substantially worse than expected, resulting in losses.

The performance of quantitative models generally decays over time. Models must be constantly reevaluated in light of, and, in some cases, adjusted to account for, rapidly changing market conditions. All changes to models, including incremental improvements to current models, expose the Funds to the possibility of unforeseen losses from a variety of factors, including conceptual failures and implementation failures. The determination as to when to turn over a model change is complicated and involves balancing the implementation and modeling risks associated with turning over new code with the expected benefits of the change. If PDT turns over a model change too quickly or too slowly, which happens from time to time, the performance of a Fund will be negatively impacted (potentially materially). While certain Funds incorporate all or some of the same signals (e.g., the Mosaic Trading Funds), PDT may roll out changes to such signals on different schedules across Funds, or choose not to make the same changes to the correlated signals across Funds. In either of these scenarios, certain Funds may be disadvantaged relative to other Funds.

#### *Dependence on Technology; Cybersecurity*

PDT's investment processes, including research, production trading, risk management, and trade coordination and allocation, are highly automated and rely heavily on technology, including proprietary and third-party hardware and software. We believe that technology is critical to our success, and any failure on the part of PDT to anticipate or respond adequately to industry best practices or applicable technological advancements (including by being slow to adopt new technologies or inadequately resourcing efforts to onboard new technologies) could have a material adverse effect on the Funds.

The performance of a Fund, as well as various critical processes of PDT, have been and could in the future be severely compromised by coding errors (including design and implementation errors) and software related "system crashes." Any event that interrupts or compromises PDT's computer and telecommunications operations could result in, among other things, the inability of PDT to establish, modify, liquidate, hedge, or monitor a Fund's investments or the permanent loss or degradation of some or all of PDT's critical data and systems. These events could cause a Fund to lose trading connectivity or to trade in unintended ways or cause PDT to expose confidential information (see *Disclosure of Intellectual Property* below). They could also result in regulatory intervention or cause PDT to suffer reputational harm, which could result in substantial redemptions from the Funds.

The performance of the Funds may also be compromised by computer viruses, cybersecurity (including ransomware) or physical security breaches. While PDT generally takes into account anticipated risks in

designing its systems, certain of its systems have been in place for an extended period of time and have certain known exposures to particular risks. The tactics, techniques, and procedures used by unauthorized parties to obtain access to data, disable or degrade service, or sabotage systems change frequently, so monitoring needs to be constantly adjusted to be effective. While PDT has resources dedicated to security monitoring and incident response, any failure by PDT to implement or adjust its monitoring of a particular system or software or to respond appropriately to a notification could result in PDT failing to detect unusual activity for an extended period of time. Furthermore, any failure by PDT to address a known security vulnerability (e.g., by failing to appropriately patch a critical system, which happens from time to time) will leave PDT exposed to additional cybersecurity risk.

Funds have been, and will continue to be, negatively impacted by power outages, hardware failures, disk failures, inadequate capacity planning, and other similar circumstances, only some of which are within our control to prevent. While PDT has business continuity procedures and regularly monitors its trading equipment, its configurations, procedures and monitoring are likely not as robust as they could be. We generally seek to improve our business continuity capabilities; however, from time to time, PDT makes business decisions that negatively impact our business continuity capabilities (for example, deciding to reduce the scope of activities undertaken by our U.K. subsidiary, which can no longer effect trades for the Funds). In addition, our operations are subject to known points of failure with respect to certain data, technology, products, and markets. Even where PDT believes we have established full redundancy with respect to a particular system, unexpected and multiple failures have been known to occur. In the case of severe business disruptions, PDT may not be able to resume its activities for many days, weeks, or even longer depending on the severity of the outage and the systems impacted. Because many of PDT's investment strategies trade on a frequent basis (as opposed to holding positions for long periods of time), failures in the trading or other systems, which occur from time to time, could have material adverse effects on the performance of a Fund.

PDT relies on a number of third-party vendors for critical services, including cloud computing providers, data center providers, data providers, telecommunication providers, software and hardware vendors, the Funds' administrator, and certain executing and prime brokers. In particular, the Trading Funds currently rely on a single counterparty to access certain products and certain markets outside the U.S. Interruptions of the services provided by third party vendors occur with some regularity and disrupt our ability to effectively trade and manage the Funds and otherwise operate our business. A prolonged interruption of any such services could have a material adverse impact on our Funds, including by rendering the Funds unable to trade certain products or access certain markets for weeks and possibly even months while connectivity to an alternate counterparty is established.

Use of third-party vendors exposes PDT to additional information security risks. Hardware or software acquired from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise PDT's information security. In addition, network connected services provided by third parties are susceptible to compromise, which could lead to a breach of PDT's network. A third-party vendor's failure to adopt or adhere to adequate data security policies may result in a breach of its networks that hold confidential information about PDT or the Funds, resulting in the improper use or disclosure of such information (see *Disclosure of Intellectual Property* below).

PDT also relies on automated processes to assist it in its compliance and risk management functions, including monitoring its compliance with short sale restrictions and position limits. If such automated processes do not function correctly, including as a result of not being properly coded, PDT and the Funds may become subject to adverse regulatory outcomes, such as fines and other sanctions (including, potentially, a ban on trading) and/or unwanted reporting obligations.

Most of the models used by the Funds generally operate independently from one another. Therefore, even if an issue impacts multiple strategies, it could impact them differently. As a result, a Fund may incur a loss as a result of its automated investment processes that does not result in a loss to another Fund. In addition, if an issue is identified (e.g., a hardware vulnerability) or occurs (e.g., a system outage), PDT often remediates the issue at different times for different Funds depending on competing priorities, the availability of resources, as well as PDT's perception of the relative risk of the issue and/or the relative difficulty of remediating the issue for each Fund. With respect to any issue that impacts multiple Funds, no assurance can be given that the issue will be remediated for a Fund before (or even shortly after) it is remediated for another Fund managed by PDT or that the issue will be remediated for the Fund that is most impacted by the issue before it is remediated for another Fund. PDT is conflicted in making such decisions (see Item 6 – Performance-Based Fees and Side-by-Side Management).

### *Coding Errors*

Software is prone to coding errors and, given the manner in which PDT trades, a single software coding error can result in the execution of thousands of unwanted trades or, alternatively, the failure to place thousands of wanted orders. While PDT has change management procedures and tools (which include review and approval procedures), those procedures and tools are not infallible and can be circumvented by malicious or negligent employees. Moreover, deployment and testing practices are left largely to the discretion of individual teams and thus vary across teams. As a result, any team may have insufficient practices to discover certain coding errors.

For many of PDT's systems, the deployment process is complex, with many different steps that need to be deployed in a particular order. If PDT misses a step or fails to sequence the steps in the correct order, which does happen from time to time as a result of human error (see *Human Error* below), the Funds may be materially adversely effected. In addition, PDT does not have a comprehensive or fully isolated quality assurance ("QA") or development environment. As a result, compared to firms with fully built-out and isolated QA environments, PDT is more vulnerable to the risk of unintended changes being made to the production environment.

The decision as to when to turn over new software involves balancing the expected benefits of any change (which would call for turning over the change quickly) with the risks that the software contains errors (which would call for exhaustive testing). Despite PDT's efforts to strike the right balance, from time to time, PDT has in the past and will in the future turn over new software too quickly or too slowly, negatively impacting one or more Funds. From time to time, PDT also deploys new code with errors that could have been detected with more exhaustive or independent testing (and it should be noted that certain models have less exhaustive test suites than others). In addition, where PDT believes that the benefit of rolling out a change outweighs the risk of not addressing (or even diagnosing the precise cause of) a known weakness, which happens from time to time, PDT deploys new code with known weaknesses. In such cases, it is possible that PDT's decision to deploy the change without addressing the known weakness will prove wrong in hindsight, and a Fund could be negatively impacted.

Detecting coding errors is often extremely difficult, particularly where, as is the case with most of PDT's proprietary software, there are no design specifications. Given the difficulty of detecting coding errors, some errors have gone, and will continue to go, undetected for long periods of time and some will never be detected. Moreover, some coding errors will be detected but not fixed by PDT immediately or at all, due to competing priorities and/or the perception that the impact of the error is not significant. Although PDT will make judgments about the perceived impact of discovered errors so as to try to appropriately prioritize the remediation of the errors relative to new business initiatives, in the vast majority of cases, PDT will not perform a quantitative impact analysis on discovered coding errors. Moreover, PDT's judgment has in the past and could in the future prove to be wrong, with the result that a software error

that PDT chooses not to fix immediately or at all, or chooses to fix at different times for different Funds, materially impacts one or more of PDT's Funds.

The occurrence of coding errors is inevitable given PDT's complicated and highly technical trading processes, and coding errors are not considered "trade errors" under PDT's policies. Investors should understand that they are assuming the risks, including any losses, associated with all coding errors by investing with PDT. PDT does not expect to disclose discovered coding errors to investors (even if significant), and losses arising from coding errors (including significant errors) will be borne by the relevant Fund and not reimbursed by PDT.

#### *Reliance on Data; Use of Alternative Data*

The quantitative models that are utilized by PDT to trade and manage risk for the Funds' portfolios rely on historical and current market and other data provided by third parties. Any interruption in the flow of data, or an inability to appropriately process, clean, analyze, or use such data, which happens from time to time, disrupts PDT's ability to effectively trade and manage the portfolios. In addition, from time to time, data supplied by third parties is inaccurate or PDT fails to fully understand a new data set or account for changes to an existing data set. Investment decisions (including hedging decisions) made and programming code developed on the basis of inaccurate or incomplete data or data that PDT has not sufficiently understood or processed have had, and are expected to continue to have, an adverse impact on the Funds' portfolios, including by causing one or more of the Funds to liquidate positions it would not have sought to liquidate with better data or information and/or to accumulate positions it would not have sought to accumulate with better data or information. Investors should not expect to be notified when such issues occur.

In addition to traditional data sets, we also use "alternative data" in our investment process. Alternative data draws from data sources not traditionally used by investment managers. It includes data generated by individuals, such as internet search trends; data generated by business processes, including financial transactions and credit card data; and data generated by sensors, such as geolocation data. Alternative data is often less structured than traditional data sets and usually has less history, making it more complicated (and more risky) to incorporate into quantitative models. The use of alternative data by investment firms is also subject to increased regulatory scrutiny. While PDT has policies and procedures to vet new data sources, there can be no assurance that the procedures will be effective or deemed sufficient by regulators, resulting in reputational, financial, or other harm to PDT and the Funds. It is also possible that some or all of the alternative data sets used by PDT will become unavailable in the future (due to changes in law, regulatory action, changes in vendor policies, or otherwise).

PDT makes subjective decisions regarding what data sets to explore and which to integrate into the models used by the Funds. In making such determinations, PDT considers such factors as it deems relevant in its sole discretion, which generally include the cost of obtaining such data, other priorities of the data team and research teams, the legal, compliance, or reputational risks associated with the data, the technology cost of incorporating such data into PDT's research and trading infrastructure, and the reliability of the third party providing such data. No assurance can be provided that PDT's selections will result in the Funds achieving their investment objectives.

The third parties that provide data to PDT usually provide the same information to other market participants, including our competitors. The more PDT incorporates data into its models that is being used by other market participants, the more likely the Funds' trading will be correlated with that of other funds and accounts. As described below, the more highly correlated our models are with those of other market participants, the more likely it is that the trading by other market participants will have a material adverse



effect on the performance of the Funds. See *Competition among Quantitative Managers; Correlated Trading* below.

Data costs are generally Fund expenses as described in more detail in Item 5 – Fees and Compensation – Other Fees and Expenses. Many data providers charge based on how many users can view the data, which means that failure by PDT to appropriately restrict access to the data could result in additional expenses to the Funds. In addition, many data sources PDT uses on behalf of the Funds come from providers with significant pricing power, which permits such providers to charge prices which may not be commensurate with the value such data provides the Funds and to increase such prices indiscriminately. Noncompliance with contractual data terms (which can be ambiguous and open to interpretation) could also result in vendors terminating our data licenses, which could have a material adverse effect on our Funds. In addition, data sources are potentially a source of material nonpublic information and/or personally identifiable information. PDT's failure to properly vet or limit access to data sources could therefore cause the Funds to be prohibited from trading and PDT or the Funds to be subject to adverse regulatory action.

#### *Operational Errors*

Although PDT has adopted procedures to manage operational risk, operational errors occur with some regularity. Errors made in the confirmation or settlement of transactions, management of data feeds, accrual of expenses, preparation or delivery of investor or regulatory reports, and similar issues may cause PDT or the Funds to suffer financial loss, liability to third parties, regulatory sanctions, or reputational damage.

#### *Human Error*

While PDT's trading strategies primarily utilize quantitative models and automated processes, the activities and decisions of PDT's personnel play a vital role in PDT's investment approach.

PDT's personnel make subjective decisions that impact the Funds, including decisions relating to the design, testing, and implementation of models (e.g., what level of testing is required before turning over a new model into production); the management and monitoring of the Funds' portfolios (e.g., what leverage to target, what portfolio and other risk constraints to apply, what automatic alerts to configure, and how to respond to those alerts); the processing of data and data notices (e.g., how to process a corporate action and whether to adjust systems in response to a vendor data change); and the execution of trades (e.g., how quickly to liquidate a position). Subjective decisions by individuals have in the past proved and could in the future prove to be wrong, which could result in losses. For example, a decision to increase a risk limit or not to turn off or modify trading in response to an automated alert could cause a strategy to trade more than intended. Similarly, a decision to change risk parameters or reduce risk limits in times of unexpected market conditions could cause a Fund's results to suffer, including by limiting the ability of such Fund to recoup previous losses. Because most orders are traded algorithmically and most of the individuals who engage in manual trading on behalf of the Funds have other core responsibilities, there is a heightened risk of human error occurring in connection with any orders that are traded manually.

The research and modeling processes utilized by PDT rely on theories and research being translated into computer code. Any errors made by individuals in such translation to computer code or with respect to the input of data are often difficult to detect and could result in errors in the models that result in losses (see *Coding Errors* above). It is not expected that investors will be made aware of human errors, and losses arising from human error generally will be borne by the relevant Fund.

From time to time, changes made to models or signals utilized by one Fund that should also be made to models or signals utilized by other Funds are not effectuated as a result of human oversight. As a result, coding errors sometimes have a disparate impact on different Trading Funds (including, different Mosaic Trading Funds).

### *Electronic Trading*

PDT Funds trade on electronic exchanges and other trading venues through executing brokers and also enter into derivative contracts electronically with swap counterparties. Each venue and counterparty carries its own inherent risks relating to system access, security, response times, and its use of service providers. Trading venues and counterparties are not immune from software failures and system outages. Any software failure or system outage on a venue or at a counterparty is likely to impede the ability of a Fund to trade in a timely fashion or hedge its risk, which could have a material adverse effect on such Fund's performance.

In addition, various market structure changes are being discussed globally that could impact electronic trading. Any such changes will likely impact quantitative investment strategies, like those developed and deployed by PDT, and the impact could be material.

### *Frequent Trading and Financial Transaction Taxes*

The Funds trade frequently. Consequently, they bear significant brokerage, clearing, and trading fees and other transaction costs and taxes. In addition, new financial transaction and similar taxes and higher exchange fees (for placing and/or cancelling orders) have been proposed, including by a number of European countries and by many of the 2020 Democratic candidates for U.S. President. Even de minimis taxes or a small increase in exchange fees could have a substantial negative impact on the returns of investment funds that trade frequently.

### *Market Neutral Strategies*

Most of the equity strategies that PDT manages are designed to be "market-neutral." Even those strategies that seek to be market-neutral involve a high degree of risk, as substantial losses have been realized by such strategies in the past and could again in the future. Moreover, there are many ways to measure market risk. PDT uses its own assessments and certain vendor-based models to measure market risk, and our view of market exposure would likely be different if we used different models or measurements. Even using our standard methods for assessing market exposure, from time to time PDT's market-neutral strategies will realize correlations (positive or negative) to the market. Every market neutral strategy involves exposure to substantial second-order risks, such as the risk that the value of its long portfolio declines faster than the value of its short portfolio. Further, although certain PDT strategies seek to be market-neutral overall, they do not seek to be neutral with respect to industry or other risk factor exposures. The Funds have had, and will continue to have, unhedged exposure to particular industries and other risk factors, and, from time to time, such exposures will be significant. Market-neutral strategies are likely to underperform the markets in which they invest during any period that such markets rise or perform strongly. Furthermore, no guarantee or representation is made that PDT's market-neutral strategies will exhibit low long-term correlation with an investor's traditional portfolio or any particular market or risk factor.

### *Benchmark Relative Strategy*

While most of the equity strategies that PDT manages are designed to be "market neutral," one Fund is designed to take directional, long equity market risk, and pays performance-based compensation relative

to a benchmark index, making this Fund materially different from all other Funds managed by PDT. As the investment objective of this Fund is to provide long-biased market exposure, PDT does not seek to hedge against any downturn in the relevant equity markets or otherwise protect the Fund's investment portfolio in periods where the benchmark index declines or underperforms other assets or markets, thereby subjecting this Fund to the overall risks of the relevant equity markets (see *Equity Securities and Equity-Related Securities* below). Though this Fund is benchmarked to an equity index, PDT does not significantly constrain the Fund's portfolio by reference to the benchmark index (e.g., it may not hold all securities in the index or at their index weightings and may hold securities that are not included in the index). In addition to these risks, the Fund taking directional, long equity market risk is still subject to the other risks described in this Brochure.

#### *Effects of General Economic Conditions; Geopolitical & Other Events*

The Funds may be adversely affected by deterioration and uncertainty of the financial markets and general economic conditions throughout the world, the severity and duration of which cannot be forecast. Geopolitical events, including changes in government regimes, ongoing military and other actions and heightened security measures in response to these threats, international tensions between the United States and other nations, and global health crises (such as COVID-19) will also, from time to time, disrupt commerce, reduce economic activity and increase volatility in financial markets throughout the world. In addition, from time to time, the occurrence of, among other events, natural or man-made disasters, severe weather or geological events, fires, floods, earthquakes, outbreaks of disease, epidemic, pandemic, malicious acts, cyber-attacks, terrorist acts or the occurrence of climate change, will adversely impact specific sectors of the economy or the general condition of the economy.

We cannot predict the extent and timing of any decreased commercial and economic activity resulting from the above factors or how any such decrease might affect the value of securities and other assets held by the Funds. These market conditions can result in volatility and illiquidity in the equity, debt, and global credit markets generally, which can magnify the risks described elsewhere in this Brochure, including decreased availability of stock loans and increased risk of failure of brokers, counterparties, exchanges, and other systemically important institutions. These factors would also likely in some cases cause disruptions to the normal operations of PDT, the brokers and swap counterparties we use, and other service providers, which could also have negative effects on our ability to continue operations.

In addition, governments from time to time intervene, directly and by regulation, in certain markets. Such intervention often is intended directly to influence prices and may, together with other factors, cause all the instruments traded in such markets to move rapidly in the same direction. Any market disruptions described above may also result in further changes to regulatory requirements or other government intervention. Such regulations may be implemented on an "emergency" basis, which would suddenly prevent PDT from implementing certain investment strategies or from managing the risk of the Funds' outstanding positions. For example, during the recent COVID-19 pandemic, many governments reacted to significant falls in their equity markets by prohibiting the entering into of new short positions and proposing (and in one case implementing) reduced trading hours or even full closures of their equity markets. Many of these changes occurred with little or no warning, requiring PDT to take immediate steps in response, which likely were not ideal when viewed with hindsight and which may have resulted in losses for the Funds.

#### *Volatility of Markets*

The strategies traded for the Funds are impacted by market volatility. We believe that decreased volatility, which tends to correlate with lower trading volumes, has in the past and likely will in the future adversely affect the strategies' performance, as it reduces the opportunities available to the strategies. Conversely,

increased volatility, while it generally results in increased opportunities for the strategies, also increases the “value-at-risk” of their portfolios. Volatility is influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary, and exchange control programs and policies of governments, and national and international political and economic events and policies.

Volatility resulting from unexpected or novel events can be particularly harmful to the Funds, as we cannot use historical data to predict how the models will behave in such events. In such events, PDT may take no action, reduce positions, or limit trading, any of which could have material adverse effect on a Fund’s performance. Examples of unforeseen events include the Swiss National Bank’s decision in January 2015 to unpeg the Swiss Franc from the Euro, the June 2016 decision in the United Kingdom referendum to leave the European Union, and, most recently, the COVID-19 pandemic.

#### *Illiquidity of Markets or Positions*

While the Funds generally trade in highly liquid instruments, there are times when the markets for even relatively widely traded instruments may not be able to absorb, without price disruptions, a significant increase in trading volume or trades of a size customarily undertaken by institutional investors in those markets. The Funds (particularly, the Mosaic Trading Funds) have in the past held, and will in the future hold, positions in such size as to render it difficult to liquidate the securities quickly without price disruptions. No assurance can be given that markets that are expected to be liquid will not become illiquid as a result of unexpected market events. In addition, though these generally do not consist of a significant portion of the Funds’ portfolios, the Funds often hold positions that are illiquid (e.g., as a result of a corporate action or because a previously liquid position has become illiquid). The Funds may be unable to accurately price their illiquid holdings or to dispose of them at the times determined by PDT to be appropriate.

#### *No Fixed Diversification Policies and Concentration Risk*

Although diversification is an important part of PDT’s portfolio management process, we do not have any formal diversification policy or any fixed limits, guidelines, or requirements for diversifying the investments of the Funds and, from time to time the Funds have had, and likely will in the future have, relatively concentrated exposure to certain issuers or types of issuers. As a result of the foregoing and the fact that risks associated with different assets may be correlated in unexpected ways, the Funds could become subject to concentrated issuer, industry, market, sector, or other exposures. Most of PDT’s portfolio management activities are done on a strategy-by-strategy basis, despite the fact that many Funds employ more than one strategy. Therefore, the overall portfolio of a particular Fund will at times have more exposure to a particular asset, asset class, market factor, or risk scenario than would be expected had those portfolio management activities occurred at such Fund’s overall portfolio level. If PDT fails to identify or chooses not to manage these risks (wholly or partially), which will happen from time to time, the Funds could suffer losses.

In particular, one Fund deploys a single strategy that has long-biased equity market exposure to a single country. This Fund is likely to be more volatile than a broad-based fund, such as a global or regional equity fund, or a fund that invests in other asset classes or strategies, as the Fund is more susceptible to fluctuations in value resulting from adverse conditions in the relevant country.

#### *Differing Tax Positions*

We take into account the U.S. tax status of investors (or a subset of investors) in making trading decisions on behalf of certain Funds, however, we have no obligation to continue to do so. In the event that we do

not take into account the U.S. tax status of any (or a subset) of investors in such a Fund, such investors may have adverse tax consequences.

For example, from time to time, non-U.S. and/or U.S. tax-exempt investors invest in Funds that are tailored for U.S. taxable investors. The actions that PDT takes to tailor such a Fund's after-tax returns for a U.S. taxable investor (e.g., by causing the Fund to hold a position longer than it would otherwise in order to benefit from the preferential U.S. federal income tax rate applicable to long-term capital gains) may negatively impact the pre-tax return of the Fund for all investors (including non-U.S. and U.S. tax-exempt investors). PDT is conflicted in making tax-related modifications or interventions since most partners and employees who have substantial capital invested in the Funds are U.S. taxpayers and therefore disproportionately benefit from decisions and interventions that disproportionately affect U.S. taxpayers.

### *Testing and Refining Strategies*

PDT seeks to develop new strategies (including new execution strategies) and signals and refine our existing strategies, signals, and trading methods in an effort to achieve the Funds' investment objectives and to increase the Funds' investment capacity. PDT engages in these activities utilizing the capital of the Funds, as opposed to engaging in such activities utilizing the capital of PDT directly or other third parties. The PDT Partners Fund family generally has priority with respect to such new strategies and signals, which could be detrimental (possibly materially detrimental), to the other Trading Funds, particularly if the new strategies or opportunities adversely impact the other Trading Funds. PDT cannot necessarily predict how new strategies or investment signals will perform, and as a result, the Funds that trade them may suffer losses (which could be material). Furthermore, it is likely that, despite having tested a strategy or signal utilizing the capital of one Fund, PDT will, from time to time, ultimately decide to employ such strategy or signal for the benefit of other Funds even if doing so is expected to degrade the performance of the Fund that initially tested the strategy or signal. PDT also often performs certain operational tests on one Fund (with the attending costs accruing to that Fund) though the benefits of such tests may accrue to the other Funds.

From time to time, PDT also effects trades on behalf of the Funds in an effort to acquire information used to improve or refine our strategies, signals and trading methods. Although such efforts will be performed in an effort to improve the strategies and performance of the Funds on a long-term basis, such trading activity are likely to have adverse effects on the Funds on a short-term basis (e.g., by increasing the transaction costs borne by the Funds or causing the Funds to suffer losses). In addition, no assurance can be provided that any such efforts will in fact result in improvements to PDT's strategies, signals, or trading methods that accrete to the benefit of the Funds

### *Exercising Discretion in Non-Model Driven Trading Decisions*

PDT, from time to time, executes trades (or restricts trading) on behalf of the Funds for reasons not directly related to its quantitative investment models. For example, PDT intervenes, from time to time, if we believe there are significant tax or other advantages for certain investors if the fund holds certain securities (or swaps thereon) longer or liquidates them earlier than the model would have done otherwise. PDT is also likely to cause certain Funds to trade a particular instrument in a particular form (e.g., swap or cash) or with a particular counterparty because doing so has tax benefits for PDT or its affiliates and is not expected to have a material adverse impact on its Funds. Interventions PDT makes based on the tax characteristics of particular investors and/or PDT do not always (or even often) benefit all (or even a majority of) investors in the particular Fund with respect to which the intervention occurs.

In addition, PDT intervenes from time to time (either by modifying universe selection criteria, blocking trading of certain issuers, or capping or liquidating positions of certain issuers) to address specific investor ESG concerns. While PDT only takes such actions if we believe (which belief may be based on intuition as opposed to research) that the actions will not have a material impact on the applicable Fund and its strategy, PDT's judgement could prove wrong in hindsight. Moreover, PDT is conflicted in making ESG-related interventions, as such interventions allow it to increase its assets under management and therefore the fees it receives from the Funds.

### *Open Source Software*

PDT uses software and development tools governed, directly or indirectly, by open source licenses and at times incorporates such software or tools into its proprietary systems. Given the nature of open source licenses, third parties may assert intellectual property claims against PDT in connection with such open source licenses. If any of these claims materialize, PDT may be forced to: (i) re-engineer its proprietary systems and/or software; (ii) release certain proprietary software code; or (iii) make its proprietary software available under the terms of any open source license – any of which could materially and adversely affect PDT's operations and as a result, negatively impact the performance of the Funds.

### *Competition among Quantitative Managers; Correlated Trading*

There are a large number of investment managers that utilize quantitative models in their trading strategies. There may be attempts by other participants in the market to duplicate PDT's models or trading strategies. To the extent that such persons are utilizing models that are similar to those utilized by PDT, a Fund is competing for investment or arbitrage opportunities with such participants, and the trading by such other persons will likely impact the opportunities and profitability of the Fund. For example, if PDT's models react similarly to those deployed by other market participants, it will likely have an adverse impact (and potentially a material adverse impact) on the ability of the Fund to acquire or dispose of its investments at attractive prices.

During the summer of 2007, there was a widespread de-levering by investment managers using similar quantitative models that created a feedback loop, resulting in high volatility, unexpected correlations, and imbalanced liquidity. The liquidation of positions during this period resulted in material losses for many funds using quantitative models, including those funds that did not initiate the de-levering. A similar series of events likely occurred in March 2020 in response to the COVID-19 pandemic. Any market circumstance similar to the foregoing could have a material adverse effect on the Funds.

### *Disclosure of Intellectual Property*

The intellectual property developed by PDT for its trading activities could be copied or stolen by third parties (including, potentially, by rogue partners or employees or through failures in PDT's security systems or processes) who may provide such intellectual property to competitors of PDT. PDT generally encourages cross-collaboration (and therefore information sharing) among research and technology teams. As a result, the number of individuals with access to intellectual property is likely greater at PDT than at other quantitative investment firms, and PDT's exposure to theft of intellectual property is also likely greater.

Even absent a security breach, public disclosure of sensitive information could occur as a result of inadvertent disclosure by PDT or a public disclosure request to an investor in a Fund that is a governmental entity.

In addition, existing regulations require PDT to disclose certain information about the Funds' positions to governmental agencies and the general public. New regulations or additional scrutiny by regulators may require additional transparency with respect to the trading strategies used by firms (such as PDT) deploying quantitative or algorithmic strategies. For example, additional position-level disclosure obligations have been proposed, as has the tagging of model-driven orders. Even if the regulations require reporting only to governmental agencies, it is possible that the information will leak out to the public. Finally, PDT may also be forced to make involuntary disclosure of proprietary information as a result of our use of open source governed software and development tools (see *Open Source Software* above).

Disclosure of PDT's intellectual property to PDT's competitors could cause funds or accounts managed by those competitors to have correlated trading with the Funds, which could have a material adverse impact on the Funds' trading results (see *Competition among Quantitative Managers; Correlated Trading* above).

#### *Regulatory Focus on Algorithmic Trading*

Algorithmic trading is the subject of ongoing regulatory attention, which may become even more intense in the aftermath of the market volatility resulting from the COVID-19 pandemic. In the past, the Securities and Exchange Commission ("SEC"), the Commodity Futures Trading Commission ("CFTC"), and the European Securities and Markets Authority ("ESMA"), among other regulators and exchanges, have undertaken efforts to review the impact of algorithmic trading on the functioning of markets and to suggest systems and controls for trading participants to ameliorate any adverse impact. For example, the Japanese Finance Services Agency has adopted a new requirement for "high speed trading," which, among other things, requires persons connecting to Japanese exchanges via certain electronic means (including PDT) to register with the Japanese regulator and adhere to an operational control framework and certain business operation requirements. While the impact of such regulatory focus on PDT and algorithmic trading firms in general is not entirely clear, it is likely that new regulations will require PDT to implement additional technology and other controls, and that compliance with these new rules will consume limited internal resources, thereby impeding PDT's ability to pursue other initiatives, including improvements to its strategies.

High frequency trading, in particular, is the subject of intense regulatory focus. Financial transaction taxes (see *Short-Term Trading and Financial Transaction Taxes* above), minimum resting periods, higher fees for cancelled trades, and circuit breakers have been proposed and/or adopted. Such restrictions could also have a significant impact on the liquidity of instruments traded by PDT, which would likely materially diminish the profitability of our investment strategies, even those that have longer-term holding period.

Moreover, PDT is subject to inquiries and/or examinations by regulators in connection with any investigation into the practices of trading firms that employ algorithmic or high frequency trading strategies. Any such inquiry or examination would likely be distracting for PDT and consume limited internal resources, and could result in additional expenses that would impact the performance of the Funds.

#### *Key Personnel; Retention*

The performance of the Funds depends to a large degree on the efforts of the individuals employed by PDT. Competition among alternative investment managers and technology companies is intense for the most highly skilled individuals. If Peter Muller or any PDT partner or employee with unique or special skills or knowledge ceases to remain part of PDT or becomes incapacitated, no assurance can be given

that PDT would be able to identify a replacement with similar experience or ability or as to the length of time the search for a replacement would take. As a result, PDT's operations could be significantly disrupted.

#### *Limited Capacity; Mandatory Redemptions*

PDT periodically reviews and assesses the amount of capital that it believes can be allocated to a particular strategy. In making capacity decisions, we generally consider several different factors, including projected strategy performance, anticipated market conditions, risk factors, and overall profitability to PDT and its partners and employees (i.e., the profit that accrues to PDT and related parties from management fees, performance-based compensation, and return on capital invested in the Funds). PDT is conflicted in making decisions on capacity because, while expanding on the capital base of a Fund will increase the amount of management fees PDT can expect to receive from the Fund, it also risks diluting the returns of the Fund (which could lower the returns PDT partners and employees earn on their investments in the Fund). The performance of a Fund may be materially adversely impacted by the capacity decisions made by PDT.

We have determined that the PDT Partners Fund family is capacity constrained. As a result, we have, and expect to regularly in the future, reduce the size of those Funds by mandatorily redeeming certain investors from the PDT Partners Fund family. Historically, mandatory redemptions have not been made on a pro rata basis and we do not expect that they will be made on a pro rata basis in the future. Certain investors have been, and likely will continue to be, mandatorily redeemed before other investors (for example, PDT does not expect to mandatorily redeem PDT partners, employees, affiliates, and possibly certain friends and family and, in fact, has in the past and may in the future accept subscriptions from existing and new investors, including from PDT partners, employees, affiliates, and friends and family during times when other investors are being mandatorily redeemed).

Even among investors in the same general category (e.g., friends and family) redemptions have not been made, and will likely not be made in the future, on a pro rata basis. In considering which investors to mandatorily redeem and in what amounts, we reserve the right to be subjective and consider only the interests and factors we desire (including, our own interests and those of our partners and employees). Factors we have taken into account in the past, and are likely to take into account in the future, in deciding which investors to mandatorily redeem, in what amounts, and whether to accept new investments from existing or new investors include our (or our partners' or employees') relationship and/or experience with the investor (or the investor's manager), the investor's (or manager's) history of prior redemptions from our Funds, whether the investor (or manager) has investments in multiple Funds, any information disclosure concerns we have with respect to the investor (or manager), any contractual rights the investor (or manager) has with respect to capacity, and the size of an investor's (or its advisor's) investments in the particular Fund. Relatively soon, we expect that all or almost all external investors in the PDT Partners Fund family (with the possible exception of certain friends and family investors) will be mandatorily redeemed in full.

#### *Leverage*

While the Funds utilize different amounts of leverage, most (but not all) of the Funds utilize a significant amount of leverage as part of their investment program.

The Funds obtain leverage by trading on margin and by trading derivative instruments that are inherently leveraged (including, among other things, futures contracts and swaps). Leverage exaggerates the effect on the value of interests in a Fund of any increase or decrease in the market value of its securities, thus increasing the volatility of a Fund. In addition, monies borrowed are subject to interest costs that may or



may not be recovered through appreciation of the securities purchased or the yield from such securities. The amount of leverage or borrowings that certain Funds have outstanding at any time is likely to be large relative to their capital bases.

To raise cash to meet a margin call or other payment requirement (including as a result of a sudden precipitous drop in the value of a Fund's portfolio), a Fund may be required to liquidate assets in its portfolio that it otherwise would not liquidate or liquidate assets at a sub-optimal time. In addition, a Fund may be required or PDT may determine to de-lever its portfolio, which would likely result in the liquidation of portfolio positions at a different time than would otherwise be optimal.

Notwithstanding the foregoing, there can be no assurance that the Funds will be able to obtain the leverage that they seek. Events in the global financial markets have in the past decreased, and likely will in the future decrease, the availability and have in the past increased, and likely will in the future increase, the cost of certain forms of financing. Any inability of the Funds to obtain, employ, and/or maintain leverage or other forms of financing at a reasonable cost would degrade the performance of the Funds, perhaps materially.

#### *Counterparty Risk and Counterparty Concentration Risk*

The Funds are exposed to the credit risk of the banks, brokers, dealers, exchanges, and other counterparties through which they trade, particularly Morgan Stanley. The Funds' prime brokers or other counterparties hold Fund assets, including assets held as collateral to secure margin loans, securities loans, or other financing or extensions of credit provided to the Funds, and may otherwise have payment obligations and other liabilities to the Funds. If a prime broker or counterparty becomes insolvent, the claims, assets and/or collateral of the Funds held by or due from such prime broker or counterparty may not be recoverable by the Funds. Further, even if the Funds are able to recover a portion of such claims, assets, or collateral, such recovery could entail significant costs and could take a significant period of time.

The Funds are also subject to risk of loss of their assets on deposit with a sub-custodian in the event of the sub-custodian's bankruptcy, the bankruptcy of any clearing broker (through which a broker executes and clears transactions on behalf of the Funds), or the bankruptcy of an exchange clearing house. The Funds are also subject to risk of loss of their funds on deposit with non-U.S. brokers because non-U.S. regulatory bodies do not uniformly require such brokers to segregate customer funds.

Certain swap counterparties that are financial institutions subject to European regulatory requirements have required, or are expected to continue to require, the Funds to agree to the application of a "bail in" regime in the event of the counterparty's insolvency pursuant to which the Funds' unsecured claims against the counterparty are subject to reduction by the relevant regulatory authority. Additionally, regulatory requirements in the United States and Europe require the Funds to wait a specified period of time before exercising contractual termination rights based on the insolvency of certain swap counterparties or their affiliates, which could result in losses for the Funds.

The Funds rely on one or more broker-dealers for exchange connectivity and other services. In the event of the insolvency of any such broker-dealer, PDT may not be able to resume trading for the Fund for an extended period of time. For example, in certain markets and for certain products, the Funds currently rely on a single counterparty for trade execution and financing services. Even if a counterparty remains solvent, a Fund is likely to be materially adversely impacted if the counterparty fails to adequately perform its duties and obligations.

Each Fund relies on service providers for certain key activities (including trading, market data, and reconciliation) and, in many cases, a Fund's reliance is concentrated in a particular service provider or

group of service providers (e.g., each Fund has only one administrator). Failure of one of these key service providers to perform as expected could negatively impact the Funds.

#### *Effect of Substantial Redemptions and Subscriptions*

Substantial redemptions by investors in a Fund within a short period of time could require us to liquidate positions more rapidly than would otherwise be desirable, which would cause the Fund to incur transaction costs relating to the sale of assets to raise cash for redemptions and adversely affect the value of the Fund's remaining assets. Redemptions could cause a Fund to run at higher than desired leverage which would likely impact risk and returns. Substantial redemptions by investors in a Mosaic Trading Fund within a short period of time would also likely adversely affect the value of the other Mosaic Trading Funds, given the high correlation among the Mosaic Trading Funds. Any reduction in a Fund's assets would also cause remaining investors in such Fund or a Mosaic Trading Fund to bear a larger portion of the operating expenses of the Fund or Mosaic Trading Fund than they would otherwise. If a substantial number of investors were to redeem all or a portion of their investment from a Fund, we may also elect to liquidate the Fund.

Similarly, substantial subscriptions to a Fund could cause PDT to enter into positions more rapidly than would otherwise be desirable, which would cause the Fund to incur substantial transaction costs, or to otherwise alter the Fund's exposure to account for the expected increase in the size of the Fund. On the other hand, PDT could fail to appropriately adjust the Fund's portfolio to reflect such a subscription, in which case the Fund would have lower gross exposures than would otherwise be desirable. The acceptance of additional subscriptions may also have a material adverse impact on existing investors as PDT expects the performance of the Funds to degrade once their assets under management become too large.

#### *Differential Terms for Certain Investors*

We have allowed, and from time to time in the future expect to allow, certain investors (including PDT-related parties) to invest in a Fund on different terms than other investors. Such different terms include different information rights, different minimum investment amounts, different transfer and liquidity rights, different expense caps, different restrictions on transfer, pledging and hypothecation, and different fees and allocations. The specific terms of any such arrangement, which may be detrimental to other investors in the Fund, likely will not be disclosed to such other investors unless we determine that disclosure is required by law or contractual requirements.

#### *Equity Securities and Equity-Related Securities*

The Funds invest in equity securities and certain derivatives thereon and may, in the future, invest in other equity-related instruments, such as stock options and individual stock futures. The value of equity securities varies in response to many factors. Factors specific to an issuer, such as certain decisions by management, lower demand for the issuer's products or services, exposure to currency volatility as a result of global operations, or even the loss of a key executive, could result in a decrease in the value of an issuer's securities. Factors specific to the industry in which an issuer participates, such as increased competition or costs of production or negative consumer or investor perception, can have a similar effect. The value of an issuer's stock can also be adversely affected by changes in financial markets generally, such as movement in interest rates or consumer confidence, which are unrelated to the issuer itself or its industry. These and other factors cause significant fluctuations in the prices of the securities in which a Fund invests and therefore are likely to result in material losses to the Funds from time to time.

PDT does not perform due diligence on the fundamental soundness of the business model or management of the issuers in which the Funds invest. PDT's models do not take into account all, or potentially any, of the factors that contribute to the value of a particular company's equity securities.

### *Foreign Investments and Emerging Markets*

The Funds invest in non-U.S. securities and derivatives thereon, and PDT expects to continue to expand the number of markets where certain of the Funds trade. As a result, PDT expects those Funds' foreign investments (and therefore exposure to foreign investment risks) to generally increase over time. International investing and trading involves special risks not typically associated with investing in and trading U.S. securities and derivatives, including: changes in exchange rate and exchange control regulation; the imposition of non-U.S. withholding or other taxes; political, social, or economic instability; increased risk of government intervention; less liquid markets; less rigorous (or no) accounting and financial reporting standards; higher transaction costs; greater difficulty in enforcing contractual rights; and more uncertain procedures (if any) for bankruptcy or other reorganization or liquidation proceedings. In addition, in many non-U.S. markets, there is less government supervision of exchanges, brokers, dealers, and issuers than in the United States, which may make such entities more likely to fail or experience substantial issues than their U.S. counterparts. In the case of emerging market securities and derivatives thereon, the foregoing risks are even more pronounced.

The Funds also invest in certain developing or less-developed markets (and one Fund only invests in such markets). With respect to such investments, the Funds encounter risks not generally associated with developed markets, including those related to heightened legal, political and economic uncertainty, difficulties regarding the conversion into U.S. dollars and/or repatriation of funds, restrictions or limitations on investments (e.g., quota limitations based on total trading volume and limitations on aggregate foreign ownership), uncertain tax policies, novel methods of market access, the amount of information publicly available, general social, political, and economic instability, the risk of nationalization or expropriation of assets, adverse diplomatic and inter-governmental developments (e.g., risks around tariffs and other international trade policy), accounting risk, tax risk, regulatory risk, and the lack of robust regulation in such markets. Securities and other financial instruments traded in certain emerging markets are subject to additional risks due to, among other factors, the inexperience of financial intermediaries, a lack of modern technology, and the possibility of temporary or permanent termination of trading. As compared to exchanges in developed markets, the exchanges on which certain emerging market securities trade generally have less stringent listing requirements, lower trading volumes and liquidity, and may be at greater risk of market manipulation. Government involvement in the private sector varies in degree among the emerging market countries in which the Funds invest. Such involvement, in some cases, includes government ownership of companies in certain sectors, wage and price controls, imposition of trade barriers and other protectionist measures, or confiscatory taxation. With respect to any emerging market country, there is no assurance that some future economic or political crisis will not lead to price controls, forced mergers of companies, expropriation, or creation of government monopolies, to the possible detriment of the Funds' investments.

### *Short Sale Transactions*

Short selling is a critical part of many of PDT's strategies. Short selling involves selling securities that may or may not be owned by the seller and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in the value of securities. In addition, positions that are economically similar to short sales can be established through derivatives trading.

In most jurisdictions, a party is required to borrow or locate shares before selling securities short. From time to time, shares will be unavailable for borrowing (including as a result of PDT's activities on behalf of other Funds), and consequently, PDT will be unable to carry out intended trades on behalf of one or more of its Funds. There is also a risk that the securities borrowed in connection with a short sale will be required to be returned to the lender of such securities on short notice. If a request for the return of borrowed securities occurs at a time when other short sellers of the securities are receiving similar requests, a "short squeeze" can occur, and the Funds would be forced to replace borrowed securities previously sold short by purchasing the relevant securities on the open market at a disadvantageous time, possibly at prices significantly in excess of the proceeds received from originally selling the securities short. As more and more short sellers purchase back the relevant securities, the price of such securities will continue to increase, to the detriment of those market participants (including, potentially, the Funds) with open short positions.

Where PDT is able to effect a short sale on behalf of a Fund, such Fund faces the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, exposing the short seller to the theoretically unlimited cost of buying those securities to cover the short position. There can be no assurance that the security necessary to cover a short position will be available for purchase (including as a result of a "short squeeze," as described above). Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Similarly, a short position established synthetically through a derivative could also result in a substantial loss if the value of the underlying asset or index actually increases rather than decreases.

Many jurisdictions have imposed restrictions and reporting requirements on short selling. Most recently, in March 2020 many countries introduced short selling bans in response to the market volatility resulting from the COVID-19 pandemic. In addition, the European Securities and Markets Authority reduced the threshold at which net short positions must be disclosed to national competent authorities in the European Union. Even in the United States, the SEC has in the past suspended short selling in response to the 2008 global financial crisis) and in 2010 the SEC adopted a short sale price test rule, which limits short selling a security following a 10% decline in its trading price. These restrictions and reporting requirements, and any restrictions and reporting requirements enacted in the future, may change the manner in which a Fund trades and may prevent a Fund from successfully implementing its investment strategies. In addition, reporting requirements related to short selling provides transparency to a Fund's competitors as to its short positions, which may have a detrimental impact on the Fund's returns (see *Disclosure of Intellectual Property* above).

### *Hedging Transactions*

Many of the strategies employed by the Funds seek to limit their exposure to certain risks by employing hedging techniques, including by using a variety of derivative transactions. There can be no assurance regarding the effectiveness of these techniques or that they will result in increased or more stable returns than would have been achieved had they not been employed. Hedging techniques involve risks different from those of underlying investments. In particular, the variable degree of correlation between price movements of hedging instruments and price movements of the position being hedged creates the possibility that losses on the hedge may be greater than gains in the value of a Fund's positions. If PDT incorrectly assesses the degree of correlation between the positions in a Fund and the instruments used to hedge such positions or fails to recalculate or readjust the hedges as markets change or time passes and the characteristics of the Fund's positions change, the Fund will likely suffer losses.

Hedging techniques also increase risk through the market impact of hedging transactions, leverage effects associated with hedging positions, the general risks related to the use of derivative instruments, lower liquidity of the hedged and hedging positions relative to an unhedged position, or other factors. In

addition, even where PDT seeks to hedge a particular risk, a suitable hedging instrument might not be available, might not be identified by PDT, and/or might not be successfully executed. Hedging instruments are intended only to reduce exposure to certain risks and not to reduce all forms of investment risks. All of the Funds, even those that engage in hedging techniques, have had and will continue to have unhedged industry or factor exposure and therefore have been and will continue to be impacted (positively and negatively and materially impacted from time to time) by macro events.

Although the contemplated use of hedging instruments is intended to minimize the risk of loss resulting from a decline in the value of the hedged position, the use of such instruments generally limits any potential gain which might result from an increase in the value of such position. In addition, PDT is not obliged to hedge any particular form of risk in any particular situation and may decide to engage in particular hedging transactions for certain Funds and not others. Despite PDT's use of hedging techniques, the performance of the Funds is expected to be highly volatile.

### *Derivative Instruments Generally*

The Funds make extensive use of derivative instruments, or "derivatives." Derivatives are financial instruments that derive their value from, and are valued in relation to, one or more underlying securities, assets, financial benchmarks, indices, or interest rates. Examples include swaps, credit derivatives, futures contracts, index futures, forward contracts, and options. The risks applicable to trading a derivative include many, if not all, of the risks applicable to trading the underlying asset or assets. However, there are a number of additional risks associated with derivatives trading. Transactions in certain derivatives are subject to clearance on a U.S. national exchange and to regulatory oversight, while other derivatives are subject to risks of trading in the over-the-counter markets or on non-U.S. exchanges. Derivatives often entail a substantial amount of implicit leverage, depending on the amount of initial margin or option premium required in relation to a particular investment exposure, meaning that a small investment in derivatives could have a large potential impact on a Fund's performance. Derivatives are also subject to various other types of risk, including market risk, liquidity risk, structuring risk, counterparty financial soundness, credit worthiness and performance risk, legal risk, and operational risk. For example, a Fund could experience losses if the market for a derivative in its portfolio is, or suddenly becomes, illiquid or if there is legal uncertainty regarding its rights under the agreement governing the derivative instrument.

The regulation of derivatives is evolving globally, and significant changes in such regulation have been enacted or proposed. While there may be benefits to such increased regulation, it may also result in increased costs and margin requirements for transacting in uncleared derivatives and could make uncleared derivative markets less liquid and more volatile, particularly in the short term while there is uncertainty regarding the impact of the regulation. As these rules continue to be implemented, they could significantly increase the funding costs incurred by the Funds' swap counterparties, which in turn would likely result in increased financing costs for the Funds. In addition, the new rules are expected to require the Funds to modify their existing arrangements for the segregation of initial margin with third party custodians and to implement new procedures for monitoring initial margin posted by their swap counterparties to so-called "triparty" custody facilities. These changes could require the Funds to incur significant new expenses, especially during an initial implementation period.

### *Swap Agreements*

PDT enters into swap agreements on behalf of the Funds. Swap agreements are privately negotiated over-the-counter derivative products in which two parties agree to exchange payment streams that are often calculated in relation to a rate, index, instrument, or certain securities and a particular "notional amount."

While there are benefits to trading via swap, there are also associated risks and costs. Trading via swap exposes the Funds to counterparty credit risk, and the Funds' policies and procedures with respect to the collection of variation margin and the use of third-party custodians in certain markets are not expected to mitigate this risk entirely. In addition, in some markets, there is more latency associated with trading equity securities via swap since PDT cannot directly access certain trading venues when trading via swap. In such cases, the reference price for a swap will likely be less favorable than it would have been had a given Fund been able to access the trading venue directly. Because swap counterparties are likely to be unwilling to provide exposure to specific securities when unable to hedge their resulting exposure, a Fund may not be able to gain exposure to certain issuers when trading via swap. In addition, in certain markets, a Fund will be unable to eliminate or reduce its swap exposure to one or more specific securities unless and until its swap counterparty is able to make corresponding adjustments to its hedge positions. Therefore, trading via swap may prevent a Fund from disposing of positions that it would have been able to dispose of had it traded directly in the cash markets. In many markets, swap counterparties will not accept for "give up" those hedges executed by other counterparties. In those markets (which include the United States), a given Fund must establish positions with the same broker that provides financing for the positions.

Swaps can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swaps may increase or decrease a Fund's exposure to equity securities, long-term or short-term interest rates, non-U.S. currency values, corporate borrowing rates, or other factors such as security prices, baskets of securities, or inflation rates and may increase or decrease the overall volatility of a Fund's portfolio. Swap agreements can take many different forms and are known by a variety of names. A Fund will not be limited to any particular form of swap agreement if PDT determines that other forms are consistent with the Fund's investment objective and policies (including tax objectives). The most significant factor in the performance of equity swaps is the change in individual equity values. If a swap calls for payments by a Fund, the Fund must have sufficient cash available to make such payments when due.

### *Futures Contracts*

PDT trades futures contracts for hedging and speculative purposes. Futures prices can be highly volatile. Because of the low margin deposits normally required in futures trading, an extremely high degree of leverage is typical of futures trading accounts. As a result, a relatively small price movement in a futures contract may result in substantial losses to the investor.

Certain futures positions are less liquid at some times than at other times because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. In addition, the CFTC and various exchanges impose speculative position limits on the number of positions that a Fund may indirectly hold or control in particular commodities. The imposition of any of these limits could hinder a Fund's ability to liquidate unfavorable positions in a timely manner.

The Funds are U.S. persons for purposes of the CFTC's regulations, which limits their ability to participate in certain types of non-U.S. futures or options transactions. The Funds, however, do trade certain non-U.S. futures, and such trading poses additional risks. For example, foreign futures transactions involve executing and clearing trades on a foreign exchange. No domestic organization regulates the activities of a foreign exchange, including the execution, delivery, and clearing of transactions on such an exchange, and no domestic regulator has the power to compel enforcement of the rules of a foreign exchange or the laws of a foreign country. Moreover, such laws or regulations vary

depending on the foreign country in which the transaction occurs. For these reasons, a Fund may not be afforded certain of the protections which apply to domestic transactions, including the right to use domestic alternative dispute resolution procedures. Also, funds committed by the Funds to margin non-U.S. futures transactions may not be provided the same protections as funds committed to margin U.S. futures transactions.

#### *Effect of Speculative Position Limits*

The CFTC and various exchanges have rules setting limits on the maximum number of futures contracts and options on futures contracts which any person or group may own, hold, or control. In applying such limits, the CFTC and various exchanges generally require aggregation of the positions owned, held, or controlled by related entities. Even if activities of PDT on behalf of a Fund are conducted separately from the activities of other Funds, Chalkstream (as defined in Item 10 – Other Financial Industry Activities and Affiliations), or their affiliates, the CFTC and some exchanges require aggregation of a Fund's positions in futures contracts and options on futures contracts with positions held by other Funds and accounts managed by PDT and may also require aggregation of the Funds' positions in futures contracts and options on futures contracts with positions held by funds and accounts managed by certain PDT partners and employees, Chalkstream, or their affiliates. Any such limits may adversely impact a Fund; by way of example, such limits may prevent a Fund from acquiring positions that might otherwise have been desirable or profitable. Any new rules or rule amendments adopted by the CFTC, an exchange, or a swap execution facility in the future may adversely impact the Funds.

#### *New Issues*

The Funds at times purchase equity securities which are issued in initial public offerings ("IPOs"), including IPOs registered under the Securities Act of 1933 ("new issues"). Pursuant to Financial Industry Regulatory Authority, Inc. ("FINRA") Rule 5130, certain "restricted persons" may not participate in gains or losses from new issues and, conversely, investors that are not restricted persons are allocated all, or a larger portion than their pro rata share, of the profits or losses relating to such new issue offerings. New issue securities in the past have on occasion experienced immediate, sometimes rapid, increases in market value following such offerings. In such cases, certain restricted persons will not receive gains from such investment. Conversely, new issue securities may experience a decrease in market value following initial public offerings, in which case certain investors who are not restricted persons will receive more than their pro rata share of the losses from such investment.

Where PDT decides to subscribe for securities issued in an IPO on behalf of multiple Funds, it will allocate such securities among Funds in accordance with its allocation policy, based on a methodology that PDT deems to be fair and equitable to all Funds, taking into account factors that generally include relative assets under management and/or relative global trading volume. Any allocation based on relative global trading volume will disadvantage the Funds that have larger assets under management. Conversely, any allocation based on relative assets under management will disadvantage the Funds that trade more frequently.

PDT has limited experience in purchasing equity securities issued in IPOs, and such transactions are outside the scope of PDT's core competency. PDT's Funds may suffer losses from this activity, and the losses could be material.

#### *Commodity Prices*

Certain Funds trade futures contracts on commodities and the Funds may in the future trade other instruments linked to commodities. Commodity prices can be highly volatile and are influenced by many

factors, including the cost of producing the particular commodity; supply and demand relationships; weather and climate conditions; changes in interest rates; inflation; currency devaluations and revaluations; embargoes, tariffs, regulatory developments, governmental regulation (including import and export controls), and monetary policy; and political and other global events and global economic factors. In addition, from time to time, governments intervene, directly and by regulation, in certain markets, often with the intent to influence prices directly. For the foregoing reasons, the value of investments in commodities can change rapidly and unpredictably, which could have a material adverse impact on the Funds.

### *Currencies*

The Funds trade foreign currency spot trades, forward contracts, and/or other derivatives thereon for hedging purposes and may also trade them for speculative purposes. While PDT generally seeks to hedge the Funds' foreign currency exposure arising from their investment in non-U.S. dollar denominated securities, it does not always do so. PDT's reason for not hedging such exposure may be intentional or unintentional (e.g., the result of human error or inaccurate data). Therefore, the Funds will have exposure to currencies through non-U.S. dollar denominated securities, derivatives, and other instruments. To the extent a Fund's assets are unhedged, the value of those assets fluctuates with U.S. dollar exchange rates as well as the price changes of the Fund's investments in the various local markets and currencies. Thus, an increase in the value of the U.S. dollar compared to the other currencies in which a Fund makes its investments reduces the effect of increases and magnifies the effect of decreases in the prices of the Fund's securities in their local markets. Conversely, a decrease in the value of the U.S. dollar has the opposite effect on a Fund's non-U.S. dollar securities. Exchange rates can change dramatically over short periods of time, particularly during times of political or economic unrest or as a result of actions taken by central banks, which may be intended directly to affect prevailing exchange rates.

### *Exchange-Traded Funds*

Certain Funds invest in exchange-traded funds ("ETFs") for hedging and/or speculative purposes. While an investment in an ETF is generally expected to have low volatility and to have a positive correlation to the performance of broader markets, an investment in an ETF that is specific to an industry or sector likely has higher volatility and lower correlation to the performance of broader markets. Authorized participants (who are authorized to create ETFs from their constituent instruments and redeem ETFs into their constituent instruments) manage the supply and demand of ETFs. If an ETF's constituent instruments become difficult to buy or sell or an authorized participant, for another reason, destabilizes the supply and demand balance of an ETF, the liquidity of the ETF may be adversely affected, and the performance of the ETF may cease to track the prices of its constituent instruments, which could have an adverse effect on a Fund if it is trading such an ETF at such time. In addition, if a Fund invests in ETFs, it will be subject to fees (including management fees and/or distribution fees) in respect of its investment(s) in the ETF(s), which fees will not offset the management fee and/or other fees to which a Fund investor may be subject in respect of its investment in the Fund. Moreover, as ETFs are investment companies that are registered under the Investment Company Act of 1940, each Fund (as a private investment fund) is limited in the percentage of any single ETF that it can acquire.

### *Money Market and Other Liquid Instruments*

The Funds will, from time to time, hold significant amounts of cash, cash equivalents, U.S. Treasuries, and/or other short-term securities or money market funds in order to fund anticipated redemptions or expenses, meet counterparty collateral requirements, manage counterparty risk, or for such other reasons as determined by PDT in its sole discretion. Any such cash or cash equivalent positions could prevent a



Fund from achieving its investment objective and a Fund's investment in money market funds could suffer losses, which could be material.

While the net asset value per share of money market funds generally remains stable at \$1 per share, such funds nevertheless remain subject to interest rate shifts, major credit quality downgrades, and/or unanticipated and rapid redemptions. Money market funds may also experience losses if the federal funds rate drops below the expense ratio of the fund. In 2008, the share price of one fund fell below \$1 per share, which caused many institutional investors in the relevant fund to panic and redeem their shares. This led to massive devaluation of the shares of the relevant fund and substantial losses to investors. In the event that the net asset value per share of a money market fund in which a Fund invests falls below \$1, the Fund may experience substantial losses. In addition, money market funds have recently become subject to increased regulation by the SEC.

## **ITEM 9 - DISCIPLINARY INFORMATION**

This section is not applicable to PDT.

## ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

PDT Partners, LLC is registered with the Commodity Futures Trading Commission (“CFTC”) as a commodity pool operator. We are a member of the National Futures Association (“NFA”). Certain of our partners and employees are registered with the NFA as associated persons and/or principals of PDT Partners, LLC. In addition, PDT Partners, LLC is registered with the Kanto Local Finance Bureau in Japan as a “high speed trade operator” under the new regulatory framework introduced by amendments to the Financial Instruments and Exchange Act which became effective in April 2018.

PDT Partners GP, LLC, PDT Partners One GP, LLC, and 1818 I GP, LLC are each under common control with PDT and act as managing member or general partner of certain Funds.

Peter Muller, a principal owner of PDT, and another PDT employee (the “Chalkstream Founders”) are co-founders and control persons of Chalkstream Capital Group, L.P. (along with certain related entities, “Chalkstream”), which is registered as an investment adviser with the SEC. The Chalkstream Founders participate in regularly scheduled meetings with the investment team of Chalkstream and are members of the Advisory Board. PDT has provided a financing facility to Chalkstream and some of our partners and employees, including the Chalkstream Founders, have made personal investments in investment funds managed by Chalkstream. Certain potential conflicts of interest arise in connection with the Chalkstream Founders’ involvement with the investment management of Chalkstream and PDT’s, our partners’, and employees’ investments with Chalkstream, on the one hand, and the Funds, on the other hand. Chalkstream has engaged, and may in the future engage, in quantitative trading strategies directly and has from time to time provided, and may in the future provide, capital to firms that pursue quantitative trading strategies, including firms that trade the same products in the same markets as PDT. The Chalkstream Founders are not obligated to inform PDT of investment opportunities, relationships, or specific investments they become aware of in their role at Chalkstream, including certain opportunities related to quantitative trading. The Chalkstream Founders’ involvement in Chalkstream requires substantial time and effort, which time and effort they might otherwise expend on managing the Funds. In addition, even if activities of PDT on behalf of the Funds are conducted separately from the activities of Chalkstream and its affiliates, it is possible that the CFTC and certain exchanges will require aggregation of the Funds’ positions in futures contracts with positions held by Chalkstream and its affiliates for purposes of complying with applicable position limits or other rules. Finally, Chalkstream has invested in a PDT Fund. Given the overlapping ownership of Chalkstream and PDT, we are incentivized to favor Chalkstream over other investors (e.g., in providing information about our strategies or Funds, granting access to management, and not mandatorily redeeming them from our Funds).

Both we and Chalkstream have adopted policies and procedures in connection with such activities in order to address and monitor these potential conflicts of interest.

PDT has adopted procedures in connection with such activities in order to address and monitor any potential conflicts of interest.

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

PDT has adopted a Code of Ethics (the “Code”) pursuant to Rule 204A-1 under the Advisers Act. Each of our permanent employees, officers, directors, partners, and members (collectively, “partners and employees”), amongst others, receives training in the Code and is required to acknowledge the Code. The Code requires employees to act in the best interests of our clients and to refrain from putting their personal interests above the interests of our clients.

The Code requires partners and employees to disclose all of their covered accounts (which include brokerage accounts controlled by them and their spouses and minor children) to PDT’s Compliance department. Under the Code, partners and employees must pre-clear with our Compliance department non-exempt transactions, which include purchases and sales of most equities and futures, and cannot transact any non-exempt buy followed by a sell (or any non-exempt sell followed by a buy) within a period of less than 90 days between the two transactions.

Trading on material non-public information is also prohibited by the Code. Investments in private placements, participation in an outside business activity, and political contributions require pre-approval from the Chief Compliance Officer or his designee. The Code also places limits on the value of gifts and entertainment that may be received and/or given by partners and employees. Exceptions may be granted only with approval from the Chief Compliance Officer or his designee. Partners and employees who violate the Code may be subject to sanction.

Fund investors and prospective Fund investors may obtain a copy of the Code upon request.

Our partners and employees buy or sell securities or other instruments that we also recommend to the Funds. Moreover, we recommend to the Funds the purchase or sale of securities in which we, our partners, employees, and/or related persons have a financial interest. To address any potential conflicts of interest, these transactions are subject to our policies and procedures regarding personal securities trading described above, as well as to the requirements of the Advisers Act and other applicable laws.

Peter Muller and certain of our partners and employees have levered exposure to the PDT Partners Fund family. Such investments represent a significant portion of the net worth of such persons and are likely to increase over time. The use of leverage exaggerates the impact of the performance of the Funds. In addition, under the terms of the leverage facility, during periods of poor performance of the PDT Partners Fund family, and upon the occurrence of certain other events, certain PDT-related parties are required to post additional collateral to the provider of the leverage facility. Therefore, from time to time, PDT is likely to be incentivized to manage the assets of the Funds in a manner that is more risk averse than it would have otherwise. In addition, if any Funds suffer negative performance, our partners and employees invested in such Funds will be more negatively impacted than unlevered investors in such Fund and may redeem their investment in order to satisfy margin calls, to diversify their holdings, or for any other reasons. Any such redemptions could be substantial and could adversely affect the Fund subject to the redemptions or a Fund trading a similar strategy (see Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss – Material Risks – *Effect of Substantial Redemptions and Subscriptions*).

PDT directly or certain PDT personnel and their related entities (including Chalkstream) have relationships with broker-dealers utilized (or expected to be utilized) by the Funds. For example, PDT, its affiliates, and PDT personnel invest in the PDT Partners Fund family on a levered basis using capital provided by one such broker-dealer. Such relationships incentivize PDT to select these broker-dealers to provide services to the Funds and less likely to replace these broker-dealers with other broker-dealers with whom PDT personnel do not have a pre-existing relationship.

In deciding to select and retain Morgan Stanley to provide prime brokerage or other services to the Funds and in negotiating the terms of such services, PDT is particularly conflicted. Due to PDT's affiliation with Morgan Stanley prior its separation from Morgan Stanley on January 1, 2013 (the "Separation"), the fact that partners and employees of PDT were employed by Morgan Stanley prior to the Separation, Morgan Stanley's prior ownership of special, non-voting membership interests in PDT, and PDT's reliance on Morgan Stanley for "co-location" and data center resources in an Asian financial center (see Item 12 – Brokerage Practices), we are conflicted in our decision to select and retain Morgan Stanley over other parties and incentivized to provide Morgan Stanley with favorable terms in its role as service provider.

All of the transactions described above involve the potential for conflicts of interest between PDT or its related persons and the Funds. The Advisers Act imposes certain requirements designed to decrease the possibility of conflicts of interest between an investment adviser and its clients. In some cases, transactions may be permitted subject to fulfillment of certain conditions. Certain other transactions may be prohibited. In addition, PDT has in some cases, and will in other cases, institute policies and procedures designed to mitigate and resolve conflicts of interest when they do arise, and in a manner that is consistent with PDT's fiduciary duty to its clients and complies with applicable law.

## ITEM 12 - BROKERAGE PRACTICES

PDT's best execution policies and procedures and our selection of broker-dealers and other counterparties is overseen by our Brokerage Committee. Currently, Morgan Stanley provides custody for a significant portion of the Funds' assets and provides a significant portion of the Funds' trading and financing services (including being the sole counterparty for certain products, in certain markets, and for certain Funds).

When selecting trading and financing counterparties, and evaluating the performance of those counterparties, in accordance with our obligation to seek "best execution," the Brokerage Committee takes into account a number of factors, including commission and financing rates, execution quality, trading and technology infrastructure (including speed and reliability of execution and the ability to provide technology solutions), stock lending supply and rates, ability to execute and process transactions with appropriate levels of confidentiality, operational processes, and the financial strength, integrity, and stability of the broker or counterparty. PDT does not in all cases solicit competitive bids and does not have an obligation to seek the lowest available commission costs. If PDT determines that the amount of commissions charged by a broker-dealer are reasonable in relation to the value of the brokerage and products and services provided by such broker-dealer, the Funds will pay commissions or other fees to such broker-dealer in an amount greater than the amount another broker-dealer might charge. PDT's choice of trading and financing counterparties often differs among Funds and even differs among Mosaic Trading Funds.

From time to time, PDT trades through new executing brokers in an effort to improve our execution quality over the long-term, which can result in Fund orders being filled at worse prices (or the Funds being subject to higher commissions) than if PDT continued to trade only through executing brokers through which we have traded in the past.

Morgan Stanley has furnished PDT with "co-location" and data center resources in an Asian financial center. The cost of establishing a comparable technological solution with a different counterparty would be substantial, both in terms of the absolute dollar cost to PDT and the required time and effort of PDT to implement such a solution. Although Morgan Stanley provides these services at no cost to the Funds and we do not believe that the commissions or financing charges paid on transactions with Morgan Stanley exceed the amount another comparable counterparty would charge for effecting such transactions, these arrangements do create an incentive for PDT to select and retain Morgan Stanley as a broker-dealer for the Funds (see Item 11 – Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading).

In addition to providing the Funds trading and financing services, the Funds' broker-dealers and related persons from time to time furnish PDT directly or through correspondent relationships with research (including third-party research) and technology solutions (e.g., circuits to facilitate connectivity between PDT and such persons), and other advisory services. To date, we have not caused the Funds to pay higher commissions or financing charges than would otherwise be paid as a means of remunerating broker-dealers for services that benefit, in whole or part, PDT, but in the future we may do so but only to the extent that such payments are consistent with the safe harbor provisions of Section 28(e) of the Exchange Act.

Other than for Mosaic Trading Funds, PDT's policy is to generally work orders independently (i.e., not aggregating trades). It is likely that working orders independently causes the Funds to have a greater impact on each other than they would have if their trading were aggregated. However, under certain limited circumstances, purchases and sales of securities are generally aggregated or bunched (e.g., when subscribing for or liquidating securities acquired in initial public offerings). We generally only aggregate

orders when we deem such aggregation to be appropriate under the circumstances and operationally and/or technically feasible given our and our trading counterparties' infrastructure and capabilities at the time. Positions purchased or sold in an aggregated transaction are allocated to the participating Funds pursuant to our trade aggregation and allocation policies, which generally require allocation according to a predetermined methodology.

With respect to Mosaic Trading Funds, we generally work orders in the same direction with respect to equivalent equity instruments in a coordinated fashion (but not aggregated or bunched). Where Mosaic Trading Funds trade the exact same equity instrument, in the same direction, and through the same counterparty, we also generally allocate the resulting fills to the participating Funds at the average price of all the fills received on such related orders over the course of the day. While we believe that coordinating equity trades for the Mosaic Trading Funds is appropriate for such Funds overall, the effect of such coordination will operate on some occasions to a particular Fund's disadvantage (for example, by resulting in a Fund receiving a worse price than it would have received had it been allowed to trade without consideration of other Mosaic Trading Funds' orders).

Frequently, a Fund (or a strategy within a particular Fund) seeks to buy an asset at the same time as another Fund (or strategy) seeks to sell the same asset. While PDT is generally permitted to cross those transactions with each other internally (subject to certain conditions), we do not regularly do so as we have not established systems to effect such transactions in an operationally efficient manner. Furthermore, trades between certain Funds would be considered "principal transactions" (given the significant ownership of PDT and its controlling persons in certain Funds), which carry certain legal risks and additional regulatory requirements. Not engaging in cross trades causes the Funds to incur higher transaction costs than they would otherwise.

PDT's Trade Errors Policy defines "trade errors" as "unintended" trades, e.g., purchasing or selling the wrong securities, or purchasing or selling the wrong amount of securities. As with all financial gains and losses attributable to trading activity, any gains or losses resulting from trade errors are generally borne by the relevant Fund. Losses to Funds will only be reimbursed to the extent PDT determines that the trade error resulted from PDT's fraud, willful misfeasance, or gross negligence. Trades proposed or executed by an algorithm or automated process (even if such trade is based on a bad input, including a bad input resulting from human error) are not considered "trade errors" under PDT's Trade Errors Policy. Accordingly, all such errors will be charged to the relevant Fund(s) in the same way as any other trading gains or losses. It should be noted that, given the manner in which PDT trades, losses caused by coding errors (and therefore not considered trade errors) are likely to greatly exceed losses caused by trade errors as defined by PDT's Trade Errors Policy (see Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss – Material Risks – *Coding Errors*).

## **ITEM 13 - REVIEW OF ACCOUNTS**

Our portfolio managers and/or strategy heads are primarily responsible for periodically reviewing Fund investment portfolios. In addition, risk reports that are generated frequently (typically daily) for senior management contain strategy performance and portfolio characteristics. Performance and portfolio breakdown are also reviewed by senior management during regularly scheduled (typically monthly) committee meetings.

### **Reports**

PDT and/or the Funds' administrator provide investors in each Fund with monthly written reports setting forth each investor's investment in the Fund and certain other information. Each Fund investor is also furnished with a set of audited financial statements for each relevant fiscal year and, where applicable, a Schedule K-1 or other IRS Form indicating such investor's share of the Fund's income, gain, loss, deductions, and credits relevant for U.S. federal income tax purposes.



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

We receive certain services (including technology, research, capital introduction, hedge fund consulting, and other advisory services) from prime brokers or other counterparties with whom we conduct business at no additional cost. This presents a conflict of interest with respect to our selection of such counterparties, though we understand that the benefits received through these relationships generally do not depend on the volume of transactions directed to a particular counterparty. PDT does not currently compensate any person for client referrals, although in accordance with Canadian law, we have engaged a placement agent for assistance with the placement of Fund interests to Canadian investors.

## **ITEM 15 - CUSTODY**

Fund assets are generally held in custody by third-party qualified custodians; however, PDT is deemed to have “custody,” as defined under Rule 206(4)-2 under the Advisers Act, of the assets for the Funds because PDT serves as general partner or managing member of the Funds and because PDT has authority to withdraw assets from the Funds. In those cases, the Funds will provide audited financial statements to Fund investors on an annual basis in accordance with applicable law.

## **ITEM 16 - INVESTMENT DISCRETION**

PDT has discretionary authority to manage the assets of the Funds. Our discretion is exercised in a manner consistent with the stated investment objectives and guidelines of each Fund. The procedures we follow in assuming this authority are outlined in each Fund's governing documents.

## **ITEM 17 - VOTING CLIENT SECURITIES**

Due to their quantitative nature, in particular their generally market-neutral and highly diversified portfolios, PDT's investment strategies generally will not hold significant voting power with respect to any particular issuer, while the cost of voting proxies is generally fixed. In addition, given the relatively high turnover of certain of the Funds, it is unlikely that securities held on a particular record date would be held by that Fund on the date of the vote or when the effect of the matter voted upon was realized, which significantly reduces the relevance of the proxies that PDT might vote on behalf of those Funds. Finally, certain Funds generally hold relatively few instruments which entitle them to vote proxies. PDT has determined that the costs associated with voting proxies outweigh the potential benefit, if any, that would accrue to the Funds from proxy voting. Therefore, it is PDT's policy not to vote proxies on behalf of the Funds.

Notwithstanding the foregoing, PDT may vote proxies with the approval of the Chief Compliance Officer or his designee.

## **ITEM 18 - FINANCIAL INFORMATION**

This section is not applicable to PDT.